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SUSTAINABILITY
REPORT



The value of
connected
energy



RED
ELÉCTRICA
CORPORACIÓN

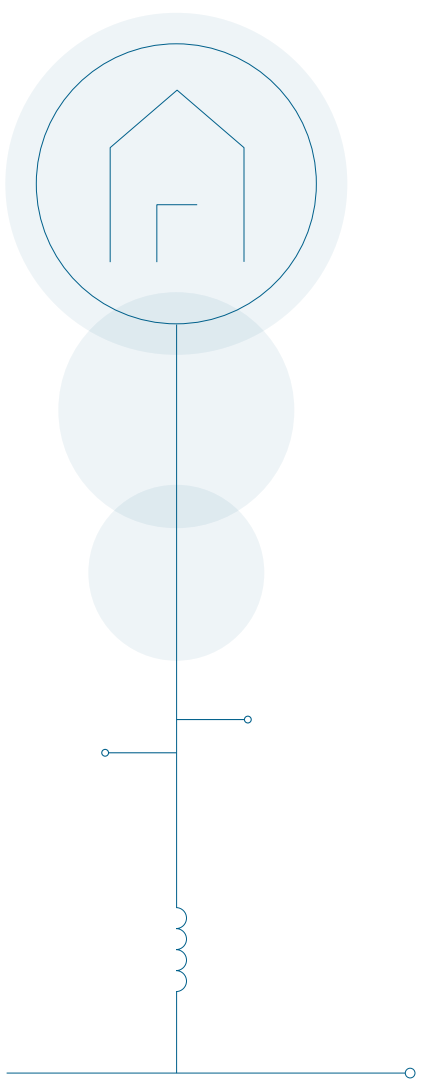













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About this report

SUSTAINABILITY CONTEXT

This Sustainability Report aims to provide transparent, reliable and balanced information on those matters identified as the most relevant for Red Eléctrica and its stakeholders in 2017 in the field of sustainability. / 102-50

Red Eléctrica has published the 15th Edition of this report, and since 2003 it has been prepared according to the Global Reporting Initiative (GRI) Guidelines for the drafting of sustainability reports in its different versions. / 102-51 / 102-52

For the drafting of this report, the GRI Standards, published in October 2016, have been used for the first time. The GRI Sustainability Reporting Standards have superseded the GRI G4 Guidelines that were used for the drafting of Red Eléctrica's Corporate Responsibility Reports for the years 2014, 2015 and 2016.

In addition to the information required by the GRI Standards, the report also includes additional applicable information that is required in the Electric Utilities Sector Supplement, owing to the fact that no update to the same has yet been published. With this, Red Eléctrica believes that the 2017 Sustainability Report has been prepared in accordance with the **GRI Standards: Core/Comprehensive option.** / 102-54

On the other hand, this report responds to the requirements of **Royal Decree Law 18/2017, of November 24**, on disclosure of non-financial and diversity information, which transposes Directive 2014/95/ EU of the European Parliament and of the Council, of 22 October 2014. It also responds to **Recommendation 55 of the Code of Good Governance of listed companies.**

In addition, this report complies with Red Eléctrica's commitment to respond to the compliance and progress of the Company in implementing the **Ten Principles of the United Nations Global Compact**, as well as its contribution to the Sustainable Development Goals (SDGs).

This report also includes certain matters defined by the International Integrated Reporting Council (IIRC) for the drafting of **comprehensive reports**, with the aim of continuing to offer our various stakeholder groups a complete information on the Company's ability to create value.

The content of this report is supplemented with the following information, corresponding to the 2017 fiscal year, and which is made available to the public by Red Eléctrica:

- Corporate Governance Report and the Consolidated Annual Accounts Report of the Red Eléctrica Group, which include the management report of the Group's business.
- Wide range of content on the corporate website www.ree.es/en



Red Eléctrica's Sustainability Report offers transparent, reliable and balanced information on the issues identified as most relevant to the Company and its stakeholders in the field of sustainability.

MATERIALITY AND STAKEHOLDER PARTICIPATION 102-44 / 102-49

According to the GRI Standards, this report focuses mainly on those issues identified as relevant in the materiality analysis carried out by the Company in 2016, the drafting process and results of which are shown in the 'Commitment to Sustainability' chapter of this report.

COVERAGE 102-10 / 102-45 / 102-46 / 102-48

This report includes relevant information regarding the management approach, actions and financial results of the core activities of the Group: the electricity business

in Spain through Red Eléctrica de España, S.A.U. (REE) which represents 93% of the Group's consolidated revenue.

However, of note is that all companies that make up the Red Eléctrica Group are subject to and comply with the sustainability commitment as well as with the policies, comprehensive risk management, information on corporate governance, the integrity model, the consolidated economic and financial data, specific employment KPIs, as well as the tax contribution set out in this report. The structure of the companies in the Red Eléctrica Group is detailed in the Consolidated Annual Accounts Report and in 'The Company' chapter of this report.

In 2017, the Board of Directors of the Red Eléctrica Group approved the Company's 2030 Sustainability Commitment. Said Commitment,

which is applicable to the entire Group, defines priorities and objectives common to all business activities and geographical areas in which the Group operates.

In order to assess the evolution of Red Eléctrica's performance over time, the report provides data from previous years. Regarding previous reports, no relevant information has been reformulated, although it is possible that data has been updated or that the calculation formula for a specific indicator has changed, in which case the changes are indicated in the corresponding section. Also, during the period covered by this report there have been no significant changes in the size and structure of the Company.

VERIFICATION 102-56

To verify the reliability of information, Red Eléctrica has submitted this report to external verification by Ernst & Young with a limited level of assurance. As a result of the verification process, an Independent Review Report is drafted which includes the objectives and scope of the process as well as the verification procedures used, and the conclusions reached. This report is included in the annex to this document.

CONSULTATIONS 102-53

Red Eléctrica welcomes opinion on this report. Please send us your comments and suggestions through the *Dígame* Service:

<http://www.ree.es/en>

E-mail: digame@ree.es

Telephone: +34 91 7286215



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Letter from the Chairman and the CEO / 102-14

The challenge of combating both the global warming of the planet and climate change is a priority issue on the world agenda and is a challenge that, as is made clear in the energy targets that the European Union has set itself in the medium and long term, requires making economic growth compatible with the reduction of greenhouse gases. To address this, it is essential to accelerate the transition to an energy model that offers reliable, affordable and increasingly cleaner energy for the consumer and which favours growth and job creation.

Red Eléctrica, as the centrepiece of the electricity system, is a crucial player in the transition to this new energy model, whose key elements must be the electrification of the economy, the maximum integration of renewable energy in the energy mix and increasing energy efficiency, ensuring at all times the security of supply.

Therefore, the Company maintains a clear position on this aspect as reflected in its climate change action plan, which, in addition to taking on challenging targets to reduce its carbon footprint by the 2020 and 2030 horizons, includes different courses of action to contribute to an energy model that is capable of providing electricity based on more emission-free energy sources.



JUAN LASALA
Chief Executive Officer

JOSÉ FOLGADO
Chairman of Red Eléctrica Corporación





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In this regard, the Company has continued in 2017 with the sustainable development of the transmission grid and has invested 411.8 million euros in new infrastructure mainly aimed at improving grid reliability, favouring the evacuation of renewable energy and the development of interconnections between electricity systems.

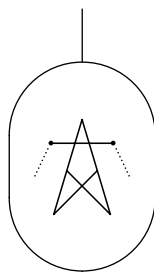
Among the projects undertaken, those aimed at improving interconnections with Europe are noteworthy due to their major influence on improving the quality and security of the Spanish electricity system and the integration of renewable energy.

These projects are aimed at ensuring that by 2030 the Spanish electricity system has a 15% interconnection capacity in relation to the installed power capacity in our country, a milestone that is a priority in Europe, as it is an essential aspect

INVESTMENT FOCUS

Improvement in the reliability and security of the grid and the development of interconnections between electricity systems.

Investment
IN THE
TRANSMISSION
GRID



411.8
M€

in new
line and
new
substation
bays

for the integration of the European single electricity market.

Similarly, Red Eléctrica has continued to guarantee the security and quality of the electricity supply, making it compatible with the maximum integration of renewable energy. In this regard, the work of the Control Centre of Renewable Energies has been key, as it made it possible for 33.8% of the energy integrated into the system on the Spanish peninsula to have come from renewable sources.

In addition, the Company is carrying out projects aimed at energy storage, such as the construction of the Soria-Chira pumped-storage hydroelectric power station in Gran Canaria, conceived as system operation tools to optimise the efficiency of the electricity system and to safely integrate renewable energy into isolated systems.

Complementary to these projects, initiatives are also carried out regarding demand-side management and energy efficiency, in addition to those undertaken for the promotion of electric mobility.

OTHER AREAS OF BUSINESS

In the international arena, the Red Eléctrica Group has continued to manage projects for the construction and operation of electricity grids in two border areas between Peru and Chile. During 2017, noteworthy was the awarding of a new concession contract for the construction of a new line in the southern region of Peru, which will enable the closing of the ring that links up the rest of the infrastructure managed by the Group in that area.

On the other hand, in 2017 the Chilean subsidiary TEN commissioned the first interconnection between the north and central electricity systems of the country, through the Mejillones-Cardones transmission line. Similarly, the Group, through the subsidiary REDENOR, has been awarded the contract for the construction of a new project in northern Chile.

In the telecommunications services business line, the subsidiary REINTEL has continued to consolidate itself as a telecommunications infrastructure operator of reference in Spain, through the commercial management and operation of the country's largest dark fibre optic network.



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FINANCIAL RESULTS

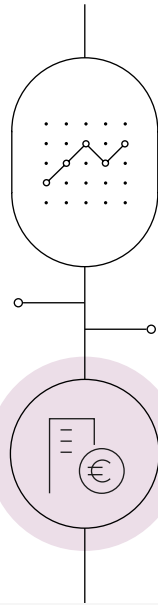
Focusing on the creation of value, during 2017, the Red Eléctrica Group has shown stable growth, achieving solid results and an important strengthening of its main solvency ratios, while maintaining a clear orientation towards operational efficiency and the permanent generation of value. This is reflected in the sound financial results obtained: revenue reached 1,941.2 million euros, 0.5% higher than the previous year, and the EBITDA margin stood at 78.3%.

Additionally, net profit for the year amounted to 669.8 million euros, 5.2% higher than the previous year, and shareholder remuneration in the form of dividends increased by 7% compared to 2016; all this, in line with the objectives set out in the 2014-2019 Strategic Plan.

SHAREHOLDER RETURN

Shareholder remuneration in the form of dividends has increased 7% with respect to the previous year.

Value CREATION



669.8 M€

of net profit

- 5.2% higher than in 2016

Red Eléctrica has been recognised as the top company in the world in sustainability in the Electric Utilities sector by the Dow Jones Sustainability Index.

SUSTAINABILITY COMMITMENT

The commitment to sustainability taken on by the Red Eléctrica Group ever since the Company began obtained clear backing in 2017 through recognition by the Dow Jones Sustainability Index [DJSI] as the top company in the world in sustainability in the Electric Utilities sector, also reaching the leading position in the Utilities super-sector, which encompasses the electricity, gas and water sectors.

On its path of continuous improvement, the Company has taken huge strides in the management of this area through

the design of the Sustainability Commitment 2030 of the Red Eléctrica Group; a cross-cutting commitment, with a long-term vision and in keeping with the Company's strategy, which allows us to establish a global scope and a common framework to give a better response to stakeholders, increase efficiency and showcase all of the Group's actions in the field of sustainability.

THE RED ELÉCTRICA GROUP'S COMMITMENT TO SUSTAINABILITY 2030

Based on four priorities: anticipation change and taking action, decarbonisation of the economy, responsible value chain and contribution to the development of society.



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The Sustainability Commitment 2030 of the Red Eléctrica Group: a cross-cutting commitment, with a long-term vision and in keeping with the Company's strategy.

The new commitment to sustainability is based on four priorities: anticipating change and taking action; decarbonisation of the economy; a responsible value chain; and contribution to the development of society. These priorities will act as the key drivers to respond to the challenges and opportunities that the Company faces. The design of this commitment has taken into account, among others, the objectives set in the United Nations Sustainable Development Goals, so that the sustainability priorities contribute significantly to the achievement of the SDGs.

In this new scenario of sustainability, innovation is conceived as an important lever for growth and anticipation, extending to all areas of business activity: digitalisation, people, sustainability and technology. Digital transformation occupies a priority position in order to improve operational efficiency, develop new business models and adapt the Group's human capital to the Company's transformation process in the coming years.

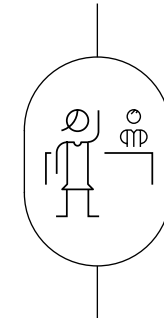
The involvement of our professionals and their high level of expertise are the basis of the success of our business management. To foster this commitment, the Company is committed to their training and

professional development, an aspect that is enhanced through the new Red Eléctrica Campus, as the corporate university.

Similarly, gender equality and equal opportunity is one of the aspects where significant progress is being made, as reflected in the progressive increase of women in the workforce and in managerial positions, and the continued high level of representation of women on the Board of Directors.

Another aspect to which the Company attaches special significance is health and safety at work. In 2017, there was an improvement in the main accident indicators for both Company employees and employees of contracted companies.

Equal OPPORTUNITIES



83.3 %

of new appointments to managerial positions have been women

24.8% of women in the workforce of the Group's companies in Spain hold managerial positions

GENDER EQUALITY

Red Eléctrica continues to progressively increase the number of women in the workforce and in managerial positions.



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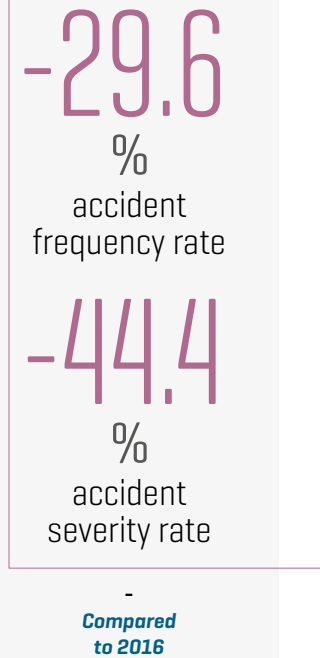
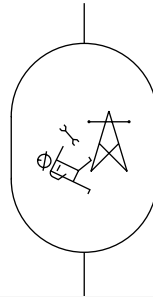
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Compared to 2016, the frequency rate and severity rate experienced a reduction of 29.6% and 44.4% respectively within the Group's companies in Spain. Similarly, in the contracted companies the frequency rate was reduced by 29% and the severity rate by 13%.

For the Red Eléctrica Group, good governance, ethics and compliance are fundamental pillars to ensure the proper functioning of the business activity. For this, the Company has a series of corporate conduct rules that establish the values and business conduct guidelines, and it has a compliance system in place aligned with the best practices in this area, aimed at ensuring that the organisation adequately respects the established obligations and the commitments undertaken; all this, based on a proactive culture of risk management.

Red Eléctrica is aware that its long-term sustainability depends on providing a service that adds value to society and generates a positive impact on society.

Significant reduction IN THE ACCIDENT INDICATORS [employees]



The Company complements its projects in the territory with collaborative programmes that embody its social commitment and generate shared value in the communities in which the Company's facilities are located.

Therefore, one of its priorities is to contribute to the economic, environmental and social progress of society, for which it complements its projects in the territory with collaborative programmes that generate shared value in the communities in which the Company's facilities are located. In addition, to assess the beneficial impact of its projects on society, the Company has adopted a methodology that allows the contribution of its investment, as a dynamic element of the country's economic activity, to be measured.

This contribution is supplemented, in turn, through a commitment that ensures maximum respect and care for the environment in the Company's execution of its

activities throughout the useful life of the facilities. Furthermore, said commitment fosters biodiversity protection, through the development of various courses of action aimed at its conservation, or the promotion of projects in collaboration with public administrations, NGOs and other stakeholder groups.

Lastly, it should be noted that Red Eléctrica voluntarily adheres to various initiatives that strengthen its commitment to sustainability, including the commitment acquired through the principles of the United Nations Global Compact.

Key Performance Indicators 2017 /102-7/102-8

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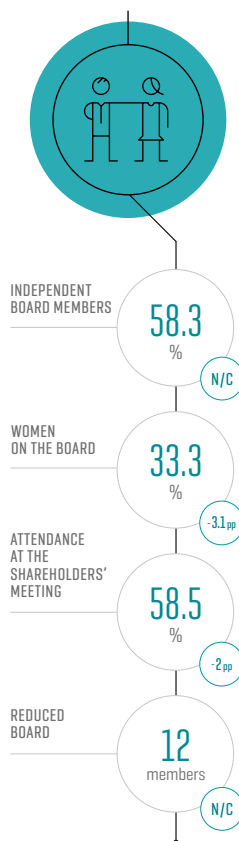
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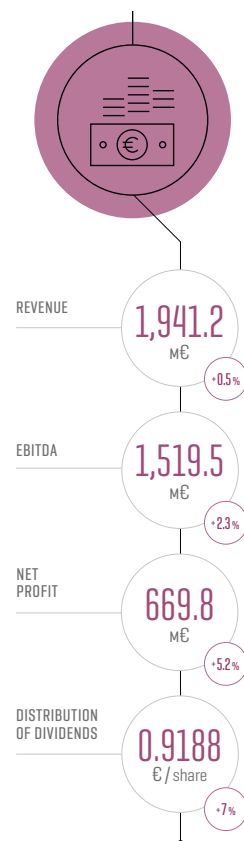
GOOD GOVERNANCE



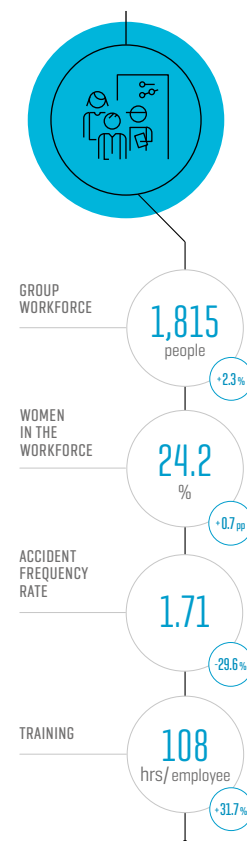
BUSINESS



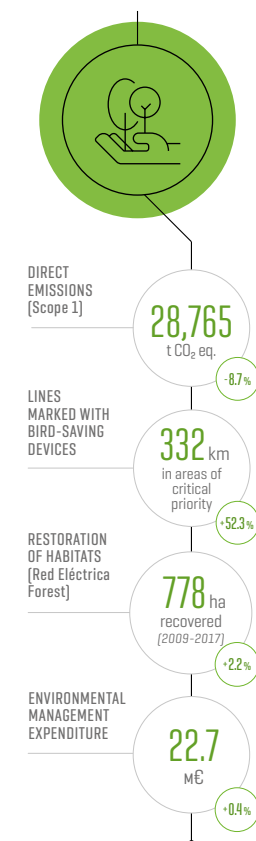
FINANCIAL DATA



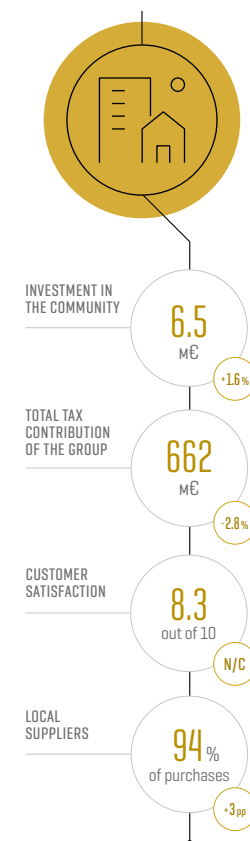
EMPLOYEES



ENVIRONMENTAL



SOCIAL



The figures shown in small circles reflect the variation compared to 2016.

The business, environmental and social indicators correspond to the companies of the Group in Spain.

pp: percentage points N/C: no change



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The Red Eléctrica Group

The main activity of the Group is carried out by **Red Eléctrica de España**, whose role is that of transmission agent and operator of the Spanish electricity system (TSO -Transmission System Operator).

The Group's international business is focused on investment in electricity transmission infrastructure abroad. This activity, initiated in 1999, and with a current presence in Peru and Chile, is managed through the companies integrated into **Red Eléctrica Internacional**.

In recent years there has been a significant boost in the development of activities for the diversification of the Red Eléctrica Group, with significant advances

in international business (new projects in Peru and Chile), the definitive consolidation of our telecommunications activity (with the creation of **REINTEL**), and the beginning of the development of energy storage infrastructure in the Canary Islands (with the creation of **REINCAN**).



The Red Eléctrica Group has had a holding structure since 2008 to strengthen the separation and transparency of regulated activities [the electricity business in Spain] from the rest of the Group's activities. Red Eléctrica Corporación is the parent company.



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STRUCTURE OF THE RED ELÉCTRICA GROUP 102-1 / 102-2 / 102-5 / 102-10 / 102-45

The core activity, the transmission of electricity and the operation of the electricity system in Spain, represents 93% of the consolidated revenue. The other activities together represent the remaining 7%.

RED ELÉCTRICA CORPORACIÓN

Electricity activity in Spain

93%
of revenue

Other activities

7%
of revenue

Transmission agent and electricity system operator

100%



Construction of international interconnections Spain-France

50%



International business

100%



Telecommunications business

100%



Energy storage in the Canary Islands

100%



Financing and risk reinsurance

100%



100%

REDESUR (Peru) TES TES 2 TES 3

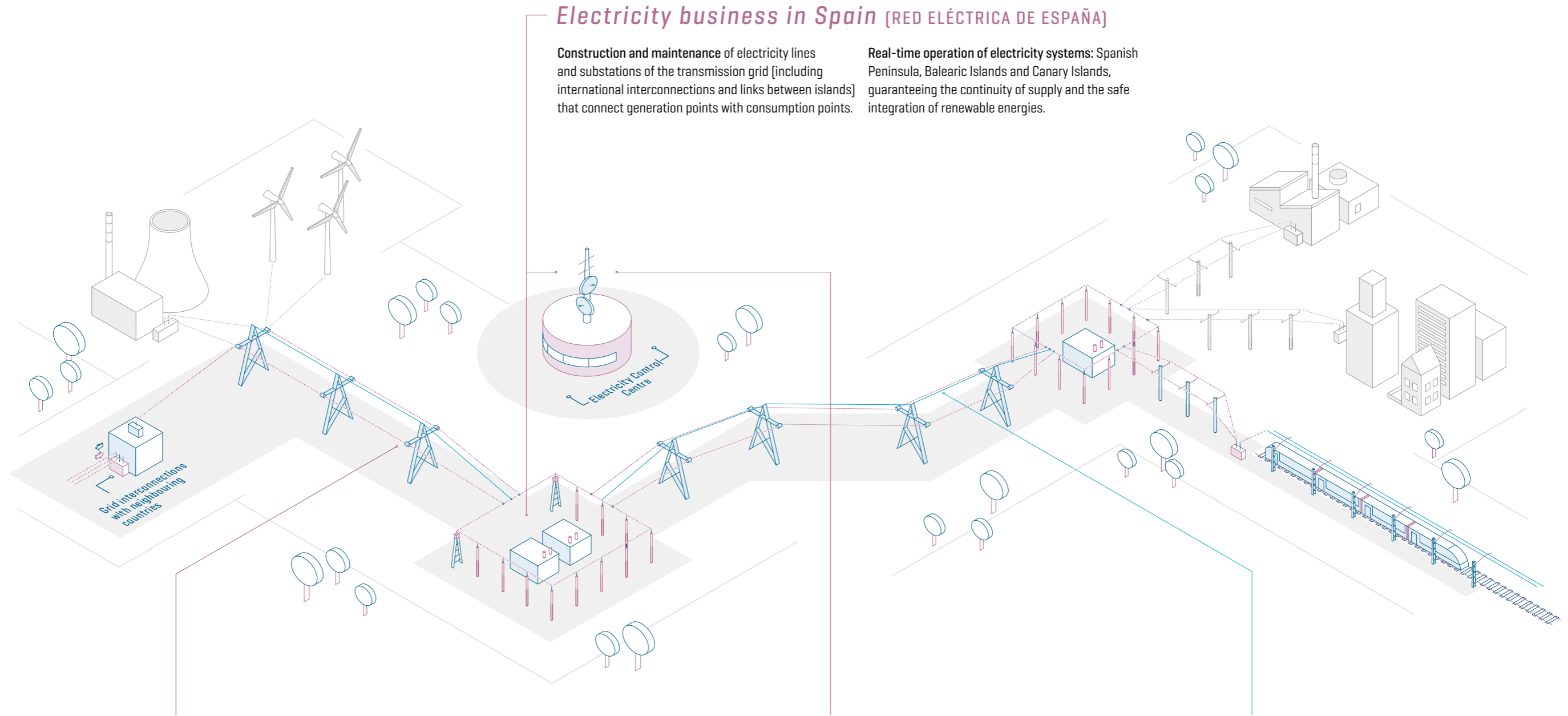
RED ELÉCTRICA ANDINA (Peru)

RED ELÉCTRICA CHILE 50% TEN 70% REDENOR

TES: Transmisora Eléctrica del Sur

Business activities of the Red Eléctrica Group /102-2/102-4/102-6

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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 connect generation points with consumption points.

Real-time operation of electricity systems: Spanish Peninsula, Balearic Islands and Canary Islands, guaranteeing the continuity of supply and the safe integration of renewable energies.

Electricity business abroad (RED ELÉCTRICA INTERNACIONAL)

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

Energy storage infrastructure (REINCAN)

Construction, management and operation of energy storage infrastructure in the Canary Islands (Soria-Chira pumped-storage hydroelectric power station in Gran Canaria) as a tool for system operation.

Telecommunications Services (REINTEL)

Commercial management and operation of the surplus dark fibre optic network associated with both the electricity transmission grid and the railway network.



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Red Eléctrica continues working to improve the electricity exchange capacity with France through the new submarine interconnection across the Bay of Biscay.



ACTIVITY IN SPAIN Electricity activity

Red Eléctrica de España is the sole transmission agent and operator (TSO) of the Spanish electricity system. As a key part of the electricity supply process, the electricity system operates in real time to keep the generation and the electricity demand of our country in constant balance, in order to guarantee the continuity and security of supply to citizens 24 hours a day, 365 days a year.

In turn, Red Eléctrica transports electricity in high voltage from the production centres to the points of distribution to consumers. In addition, it has the responsibility to develop, expand and maintain the transmission grid, as well as to manage the exchange of energy between external systems through international interconnections.

On the other hand, Red Eléctrica owns 50% of the share capital of INELFE, a company created jointly together with its French counterpart, RTE, for the development of electricity interconnections with France.

In 2017, this company started the public information consultation period for the submarine interconnection project with France across the Bay of Biscay. This new electricity link will strengthen the electricity exchange capacity between Spain and France, increasing it up to 5,000 MW.

Telecommunications activity

The Group's telecommunications business is geared towards the management and operation of telecommunications infrastructure and carried out through the subsidiary Red Eléctrica Infraestructuras de Telecomunicación (REINTEL). Its main activity is the leasing of dark fibre and of sites and technical spaces for the housing of telecommunications equipment.





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Currently, REINTEL is the neutral telecommunications infrastructure provider of reference in Spain.

The Group's experience in the telecommunications market started in 1997 and, since then, it has been a provider of reference for the main agents in the sector. For this reason, it currently has a solid customer base that includes the main telecommunications operators with a presence in Spain. The Company manages and operates a fibre optic network of more than 33,000 km of cable deployed over the electricity transmission grid and the railway network, and at the same time guarantees access to the network which is both transparent and on equal terms for its clients and agents in the telecommunications sector. It is a robust, redundant and meshed fibre optic network, which is not only connected to the systems on the Spanish islands, but also has international access.



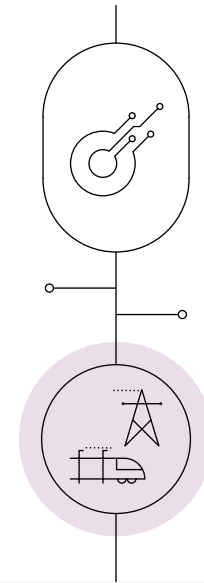
Furthermore, REINTEL has its own permanent client helpdesk and monitoring centre [24/7] that controls and monitors the state of the entire network and deals with the incidents and the scheduled work of the clients, in order to offer a service which is both reliable and of the highest quality.

Energy storage activity in the Canary Islands

The subsidiary Red Eléctrica Infraestructuras en Canarias (REINCAN), created in 2015, is focused on promoting energy storage projects on the Canary Islands that can act as tools for the system operator so as to guarantee the electricity supply on the islands, as well as to improve system security and optimise the integration of renewable energy.

Initial progress was made in this activity in 2016 with the start of the permitting process and the public information period for the construction project for the pumped-storage power station between the reservoirs of Soria and Chira in Gran Canaria, following the declaration of strategic interest of the project by the Governing Council of the Canary Islands.

TELECOMMUNICATIONS Activity



REINTEL manages and operates a fibre optic network of more than

33,000 km

Deployed over the electricity transmission grid and the railway network





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The Soria-Chira pumped-storage hydroelectric power station will enable a greater development and use of renewable energy on the island of Gran Canaria.

In 2017, the procedures for the beginning of the exploratory drilling and excavation campaign have been conducted. The exploratory works, of different depths, were carried out in order to have an in-depth knowledge of the geological and geotechnical characteristics of the terrain where the facility will be located; and specific tests will be carried out for the optimised design of the caverns where the power station and the substation are to be housed. On the other hand, in relation to the desalination plant associated with the project, a seawater pumping test will be carried out to study the permeability of the land.

This energy storage power station, which has an investment of 320 million euros, will enable a greater development and use of renewable energy on the island, therefore it represents an essential element to progress towards the sustainability of the new energy model in the Canary Islands, which is safer, more efficient and more environmentally friendly.

ACTIVITY ABROAD

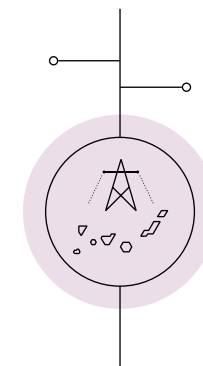
For the Company, the development of international business is a natural growth path which is centred mainly on the construction, management and operation of transmission

grids outside Spain, currently in Peru and Chile. To boost this business, the Company, through Red Eléctrica Internacional (REI), analyses corporate acquisitions and frequently participates in tenders for concession contracts.

Activity in Peru

REI owns 100% of both the following companies: Red Eléctrica Andina (REA), a company specialised in electricity maintenance in medium and high voltages, protection systems and telecommunications systems, as well as the provision of technical advice for energy projects; and Red Eléctrica del Sur (REDESUR), which manages the transmission of electricity in the southern departments of Peru: Arequipa, Moquegua, Tacna and Puno.

SORIA-CHIRA HYDROELECTRIC power station



The project has an investment of **320 M€**

The power station is a key element to move towards the sustainability of the new energy model in the Canary Islands





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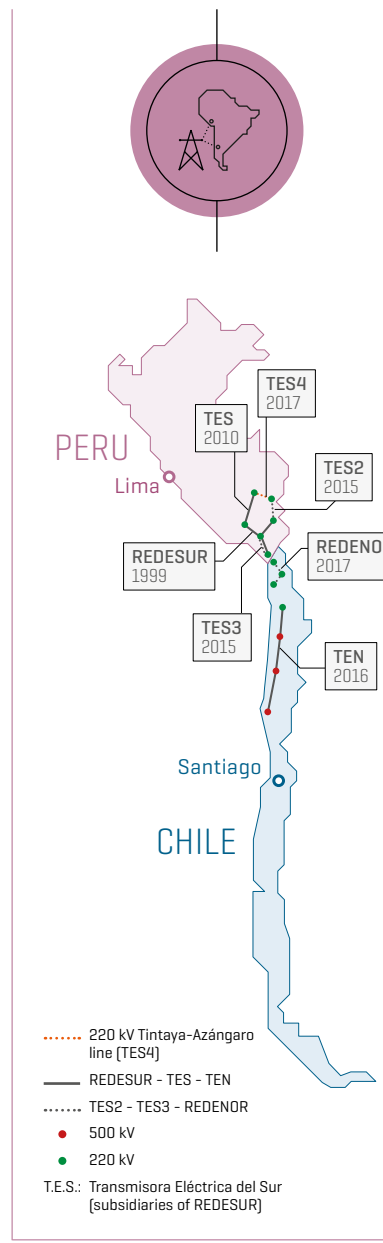


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REDESUR is, in turn, the owner of the companies: TESUR (220 kV Tintaya - Socabaya line, and the 138 kV Tintaya Nueva-Tintaya existing line and associated substations), TESUR 2 (220 kV Azángaro-Juliaca-Puno line) and TESUR 3 (220 kV Montalvo-Los Héroes line), the latter two are currently under construction.

In 2017, REDESUR was awarded the concession contract for 220 kV Tintaya-Azángaro transmission line project. In this regard, the company will be responsible for the design, construction, financing, operation and maintenance of 128 km of 220 kV line in the southern region of the country, together with new 220 kV bays in the Tintaya and Azángaro substations. With this new section of line, a connection is established between the projects of TESUR and TESUR 2 closing the ring that will link up these facilities.

Similarly, in 2017, REA has completed all the tasks for the development and implementation of the special projects undertaken by REDESUR, the pending ones in the TESUR facilities, as well as the management services of the projects under construction of TESUR 2 and TESUR 3.



The business abroad, managed by Red Eléctrica Internacional (REI), is a natural growth channel focused on the construction, management and operation of transmission grids, currently in Peru and Chile.

Activity in Chile

In Chile, REI manages Red Eléctrica de Chile, of which it owns 100% of the shareholding. Red Eléctrica de Chile, in turn, owns 50% of the company Transmisora Eléctrica del Norte (TEN), owned by the Chilean company EC-L (belonging to the Engie Group). This has allowed Red Eléctrica to enter the energy transmission business in this country.

In 2017, after twenty-eight months of construction and eight months of preparation to guarantee its correct execution, the Chilean company TEN commissioned the first interconnection between the north and central electricity systems of the country, through

the 500 kV Mejillones-Cardones transmission line which is 600 km in length. This infrastructure has had an investment of around 800 million dollars (about 679 million euros).

On the other hand, in 2017 Red Eléctrica Chile, through REDENOR (a company created in a 70%-30% consortium with Cobra Instalaciones y Servicios), was awarded the concession contract for the execution and subsequent management and operation of more than 258 kilometres of line in Chile. The project includes the design, financing, construction, operation and maintenance of the first 220 kV line in northern Chile.





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Macroeconomic and regulatory environment

MACROECONOMIC SCENARIO

In 2017, the growth of the world economy experienced a slight rebound, registering an increase in Gross Domestic Product of 3.7%, almost half a point more than the previous year, driven by the good performance not only of the more developed economies, but also the emerging countries, and favoured by the stability and optimism prevailing in the financial markets within the framework of the expansionary monetary policies adopted by the central banks of most states to facilitate economic recovery.

In this regard, neither the inauguration in January of the new Government of the United States, nor the uncertain course

of negotiations on the conditions for the exit of the United Kingdom from the EU following the Brexit vote, nor other relevant political milestones nor the geopolitical conflicts and tensions that took place during 2017 have had a significant impact on the world economy. This confirms that the strength of the current expansionary cycle of global economic activity is allowing the impact of socio-economic factors to be offset.



The strength of the current expansionary cycle of global economic activity is allowing the impact of socio-economic factors, such as unexpected results regarding the Brexit vote and Trump's election victory, to be offset.



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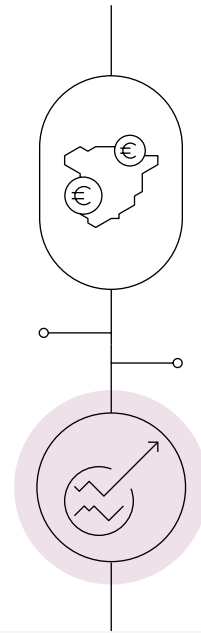
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The evolution of oil prices during 2017 has also contributed to the good global economic growth figures. The average price of Brent crude oil stood at \$52 per barrel, which was almost \$10 per barrel higher than the 2016 price, although it increased less than expected following the agreement adopted by OPEC in May to extend the oil production cut until March 2018. This relatively small increase in the price of oil has been good news especially for the emerging economies, the main consumers of this raw material, as well as the countries which have a high dependence on crude oil as a source of energy, such as Spain.

In Spain, the latest quarterly preliminary data regarding gross domestic product (GDP) published by the National Institute of Statistics in January 2018 estimates that the Spanish economy will have grown by 3.1% in 2017, once again exceeding the initial annual forecast, and consolidating the recovery trend initiated in 2014.



3.1
%

Estimated
growth of
the Spanish
economy
in 2017

*Exceeding the initial
annual forecast*

Low growth in the price of Brent crude has been good news

especially for countries that have
a high dependence on crude oil,
such as Spain.

As was the case in 2016, a year in which Spain had an interim government for 10 months, in 2017 the Spanish economy performed well in an unstable political scenario during the last quarter of the year in spite of the secessionist challenge undertaken by the Government of Catalonia, which has generated a climate of political and social unrest that has not had an appreciable impact on the growth of economic activity in the year as a whole.

The solid growth in economic activity, registered since 2014, continues to be reflected in the pace of net employment creation, which grew again in 2017, closing the year with 490,300 jobs more than a year earlier, with a growth of 2.7% in the number of employed people. This has reduced the unemployment rate by 2.1%,

standing at 16.6% in December 2017, the lowest recorded since 2008, the year before the beginning of the crisis.

During the four years that have elapsed since the start of the economic recovery in 2014, the Spanish economy has grown at a sustained pace, with rates above 3% in the last three years, in a difficult national and international political environment, which seems to confirm the consistency of the underlying factors that drive it and the expectation that this favourable economic cycle will continue, although with growth rates that are expected to become more moderate in the coming years, in the range of 2 to 2.5%.



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Spain has maintained a **sustained growth rate** since 2014, although it is expected to become more moderate in the coming years.

ENERGY SCENARIO

Following the trend of recent years, the growth of electricity consumption in Spain in 2017 has been significantly lower than economic growth, 1.6%, after having factored in the seasonal and working patterns. This progressive loss of correlation between economic activity and electricity demand is one more indicator of the gradual transition towards a less energy-intensive production model, to which the implementation of energy saving and efficiency measures, coherent with the objectives of the Spanish and European energy policy, is largely contributing, in order to achieve a sustainable energy model and combat climate change.

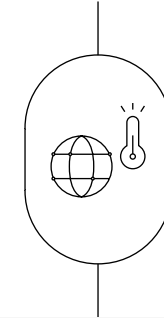
Within the framework of the European Union's firm commitment to the energy targets and the fight against climate change, in 2017

EU institutions took new steps to achieve the 'Energy Union' and to meet the specific targets of the European Union energy policy for 2030. Thus, during 2017, the debate and permitting process continued regarding the draft legislative package published by the European Commission at the end of 2016 under the generic title of 'Clean energy for all Europeans' informally known as the 'Winter Package'. This package is composed of various legislative proposals related to energy efficiency, renewable energy, the design of the electricity market, the security of the electricity supply and the governance standards of the Energy Union, whose approval will provide the regulatory framework needed to achieve a transition to clean energy in accordance with the principles of the EU's energy policy.

Furthermore, in the months of February and November, the European Commission published two reports on the State of the

'Energy Union', in which a detailed monitoring was conducted of the progress made in the energy transition process defined in this strategic package. In the latest of the referred reports, emphasis is placed on the existence of bottlenecks in the electricity interconnection infrastructure, including two documents that specifically referred to this problem as part of the various documents that accompany said report. The first of these reports is a European Communication on the strengthening of European energy grids, in which the Commission stresses that Spain will be one of the only four countries where the 10% interconnection target will not be met by 2020, and points out explicitly the need to make additional efforts to fully integrate the Iberian Peninsula into the internal electricity market, detailing the specific actions to be taken to that end.

ENERGY Targets



CLIMATE CHANGE

European Union's Commitment

During 2017, the debate and permitting process continued for the drafting of the 'Winter Package' and two reports on the State of the 'Energy Union' were published





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On the other hand, in the second of the aforementioned documents the Annex VII of the EU Regulation No. 347/2013 was amended, in which Community Projects of Common Interest (PCI) are listed, in compliance with the established requirement in said Regulation to review the PCI list every two years. The new list includes all the proposals from Spain and gives its own name and specifically defines the two interconnection projects with France through the Central Pyrenees, which in the previous list were only referred to generically.

The report on the State of the 'Energy Union' also assesses other elements of the EU's energy transition strategy, among which is the requirement to draw up national energy and climate plans. In this respect, with regard to Spain, the creation in July 2017 of a Group of Experts has been communicated. Said group has been assigned the task of defining the alternative scenarios for the energy transition consistent with the strategy of the 'Energy Union'. Similarly, it sets out the need to have the report of the Group of Experts during the first

quarter of 2018, in addition to the Government's goal to approve a Law on Climate Change and Energy Transition during the current term of office.

The Spanish energy regulation, fully aligned with the targets of the EU's energy policy, resumed its usual legislative activity during 2017 after the limited activity registered in 2016, due to the absence of a Government for almost the entire year. Among the numerous regulations published, noteworthy are those relating to the two auctions organised for the allocation of the specific remuneration framework for new facilities for the production of electricity from renewable energy sources in the peninsular electricity system. In these auctions 8,000 MW of new renewable generation capacity was allocated with a view to meeting the EU's targets regarding the share of these energies in final energy consumption mix, both for the 2020 and the 2030 horizon.



Usual legislative activity was resumed, with a view to meeting the EU's targets regarding renewable energy.



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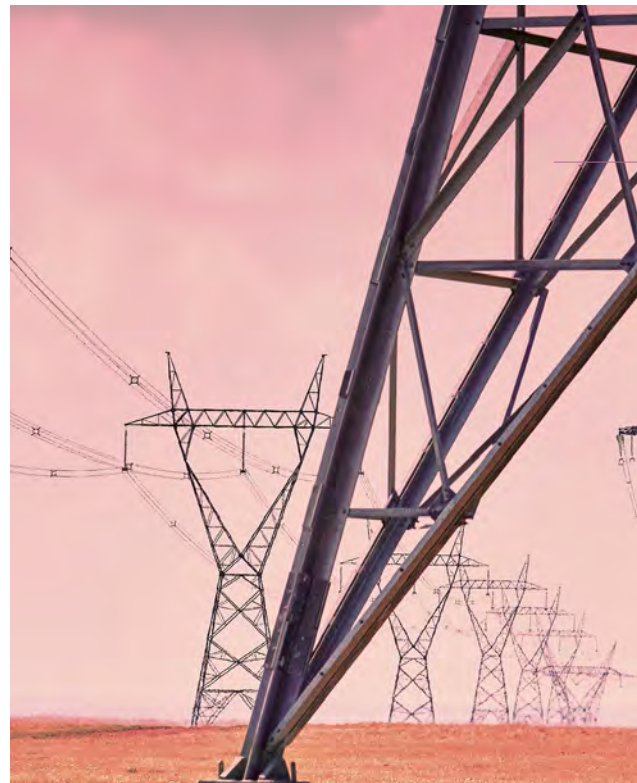


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Strategic plan

When defining its business strategy, Red Eléctrica takes into account the economic, energy and regulatory environment in which it carries out its activity. The Strategic Plan, currently in force, covers the 2014-2019 period and establishes three essential strategies (which define the actions that must be undertaken), as well as three cross-cutting strategies (which set out the criteria for how these should be accomplished).

As most of the period contemplated in the Strategic Plan has elapsed, the six strategies mentioned above show a high degree of fulfilment. On the following pages, some of the most relevant actions carried out in the period 2014-2017 are presented for each of the strategies, although in the different chapters of this report a more detailed analysis is made of those actions carried out in 2017.





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ESSENTIAL STRATEGIES

DEVELOPMENT OF THE TSO ROLE



The main activity of Red Eléctrica is linked to its status as sole transmission agent and operator of the Spanish electricity system. Therefore, the main strategy of the Company is based on:

- The development of an increasingly meshed and robust transmission grid that is better interconnected.
- The maximum integration of renewable energy.
- Energy efficiency and innovation.



Execution of the 2014-2017 Plan

- Approval of the new regulatory framework that guarantees the stability of the electricity transmission activity, incentivises efficiency and availability of the grid.
- Approval of the 2015-2020 Electricity Transmission Grid Development Plan.
- Auctions for the provision of the interruptibility service.
- Advancing in interconnections: new interconnection with France through Catalonia, strengthening of the interconnection with Portugal via Puebla de Guzmán and start of the project of a new interconnection with France across the Bay of Biscay.
- Commissioning of the Majorca-Ibiza interconnection that connects the two electricity systems of the Balearic Islands and strengthens the integration of the Islands with the Peninsular system.
- Commissioning of more than 1,870 km of new line and more than 404 new substation bays in the period 2014-2017.
- Incorporation into CORESO (COoRdination of Electricity System Operators), the coordinating body for regional security, composed of several European TSOs, in order to maintain the security of the European electricity system.
- Commissioning of the Arkale phase shifter that favours the flow of international exchanges, increasing the electricity exchange capacity with Europe and the security of supply.

EFFICIENCY



Improvement of efficiency levels in order to mitigate the impact derived from the lower profitability of new investments pursuant to the new remuneration model, generating value through the optimisation of operating margins.



Execution of the 2014-2017 Plan

- Review of the infrastructure maintenance, renovation and improvement policy in accordance with the new regulatory framework.
- Review of the construction criteria and the definition of a stakeholder management model in investment projects.
- Definition of the process for the planning of activities and the requirements for materials and services.
- Containment of operating and structural costs.
- Optimisation of financing through the repurchase of bonds, the financing agreement with the EIB and the refinancing of Redesur.

EXPANSION OF THE BUSINESS BASE



Development of regulated activities other than current and non-regulated activities in the field of telecommunications and infrastructure management, as well as the expansion into other geographical areas.



Execution of the 2014-2017 Plan

- Commercial operation and management of ADIF's dark-fibre network and the consolidation of the telecommunications business with the positioning of the Company as a neutral operator of reference in Spain in the management of fibre optic networks.
- Acquisition of 50% of Transmisora Eléctrica del Norte (TEN) in Chile and 45% of the shareholding of Redesur in Peru.
- Awardee of the concession contracts for the Azángaro-Juliaca-Puno, Montalvo-Los Héroes and Tintaya-Azángaro lines in Peru and more than 258 kilometres of line in Chile.
- Chira-Soria energy storage project on the island of Gran Canaria to guarantee the security of supply and the integration of renewables.



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CROSS-CUTTING STRATEGIES

INNOVATION



Promote innovation as an integral part of the operational process, boosting technological innovation as a lever for growth that will allow us to respond to the great challenges of the future.



Execution of the 2014-2017 Plan

Investment of €35.8 million in the period, with the following projects being the most noteworthy:

- Installation of a flywheel in Lanzarote.
- Installation of a large-scale energy storage battery [ALMACENA project].
- Implementation of the PRICE project for the deployment of demand-side management measures.
- Completion of the ESP-Líder project [re-directing of power flows] of the INNFACTO programme.
- Development of European projects: BEST PATHS [integration of massive amounts of renewable energy] and MIGRATE [improvement of the behaviour of the electricity system with a high penetration of devices based on power electronics].

PEOPLE



Commitment to a healthy working environment that favours the organisation of work and the well-being of employees, enabling the Company to optimise resources and foster talent in order to tackle the challenges it faces.



Execution of the 2014-2017 Plan

- Design of a comprehensive Talent Management model.
- Definition of the healthy workplace model and the publication of the first Healthy Workplace Annual Report.
- Updating and dissemination of the Functions Handbook.
- Creation of the Red Eléctrica Campus.
- Launching of the project 'New Ways of Working and Transformation of Workspaces', whose objective is to redesign the Group's workspaces and implement more collaborative and flexible ways of working.

EXCELLENCE



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



Execution of the 2014-2017 Plan

- Completion of the process of separation of the executive functions and duties corresponding to the CEO, from those of control and supervision corresponding to the Chairman.
- Approval of the Climate Change Action Plan for the period 2015-2020 and the 2017-2021 Biodiversity Action Plan.
- As proof of the Company's pursuit of excellence and responsibility in the execution of all its activities, Red Eléctrica has obtained numerous recognitions. Noteworthy are the following:
 - Obtaining +700 points in the assessment of the EFQM model.
 - Leading position granted in the Dow Jones Sustainability Index
 - Recognition for the commitment in the fight against climate change in the annual assessment conducted by the Carbon Disclosure Project.



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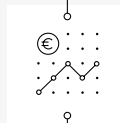
STRATEGIC PLAN SNAPSHOT

TARGETS 2014-2019

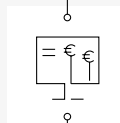
ACHIEVEMENTS 2014-2017



Investment
2014-2019
4,575 M€



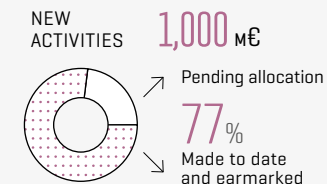
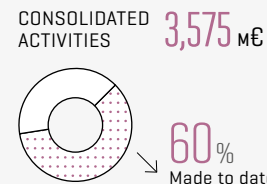
Efficiency
2014-2019
≥ 200 basis points
EBITDA margin in 2019



Financial structure
3.5 X
Net debt / EBITDA (average)

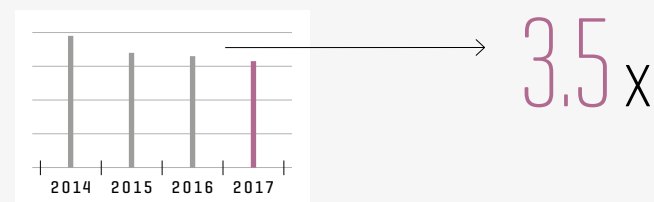


Growth
2014-2019
5-6% EPS [CAGR] **7%** DPS [CAGR]



• **EBITDA margin** → **78.3%**

• **Control of operating costs**



• **EPS growth** → **6,1%** CAGR 2014-17 ⁽¹⁾

• **DPS growth** → **7%** CAGR 2014-17

[1] Calculated using 2013 as the base year.

Legend

EPS: Earning Per Share
DPS: Dividend Per Share
CAGR: Compound Annual Growth Rate.

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2030 SUSTAINABILITY COMMITMENT

Sustainability priorities

The progress in the priorities of the 2030 Sustainability Commitment is ensured through specific multi-year sustainability plans and the annual programme of projects, whose fulfilment in 2017 stood at 91%.

Decarbonisation of the economy



Anticipating change and taking action



Contribution to social, economic and environmental development



Stakeholder management model

The Red Eléctrica Group has carried out an update of its stakeholder inventory in 2017. The overall satisfaction level was 8.3 out of 10.

Responsible value chain



Sustainable Development Goals [SDGs]

The activity of the Red Eléctrica Group contributes to the achievement of the United Nations Sustainable Development Goals.

Materiality analysis

The analysis of the sustainability context carried out by the Red Eléctrica Group has identified 24 material issues prioritised according to their relevance for the stakeholders.

Leadership in sustainability

Red Eléctrica has been recognised as the top company in sustainability in the Electric Utilities sector by the Dow Jones Sustainability Index, and leads the Utilities super-sector, which encompasses the electricity, gas and water sectors.



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2030 Sustainability Commitment of the Red Eléctrica Group

The Red Eléctrica Group has taken on a firm commitment to sustainability that is strategic, cross-cutting in nature and with a long-term vision.

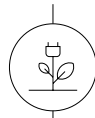
In 2017, the Board of Directors approved the 2030 Sustainability Commitment of the Red Eléctrica Group. With this commitment, the Company is committed to its long-term sustainability through a business model capable of responding to the challenges of the future and embracing the principles set out in the Company's Corporate Responsibility Policy.

This commitment is based on **ten principles** defined in the Company's Corporate Responsibility Policy and is set

out as **four sustainability priorities** identified as the key drivers to respond to the challenges the Company faces and to

help materialise the existing opportunities, in order to occupy a position of reference in the global business context.

SUSTAINABILITY IS BASED ON THE FOLLOWING PRINCIPLES:



Financial sustainability



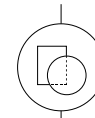
Excellence and corporate responsibility



Innovation



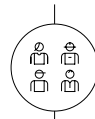
Corporate governance and ethics



Transparency



Talent, diversity and equality



Partnerships with stakeholder groups



Creation of shared value



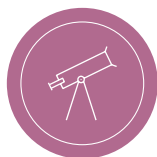
Care for the natural environment



Respect for Human Rights



SUSTAINABILITY PRIORITIES OF THE RED ELÉCTRICA GROUP



Anticipating change and taking action

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.



Decarbonisation of the economy

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 the development and operation of energy storage systems.



Responsible value chain

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 partnerships and by basing it on our governance and integrity model.



Contribution to social, economic and environmental development

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.

The 2030 Sustainability Commitment is deployed through specific multi-year plans for each of the companies of the Group and annual programmes of projects. In this regard, the **2017-2019 Sustainability Plan of REE S.A.U.** is composed of 18 essential courses of action that ensure

a responsible management of the business and help to advance sustainability priorities as well as respond to the expectations of stakeholders.

In 2017, the overall degree of fulfilment of the sustainability programme reached 91%.

It should be noted that, since 2015, the fulfilment of this programme is a managerial objective that has an impact on the remuneration of the entire workforce.

In the subsequent chapters of this Report, the specific commitment

taken on by the Company for each of the priorities, as well as the progress made in the management areas involved are explained.



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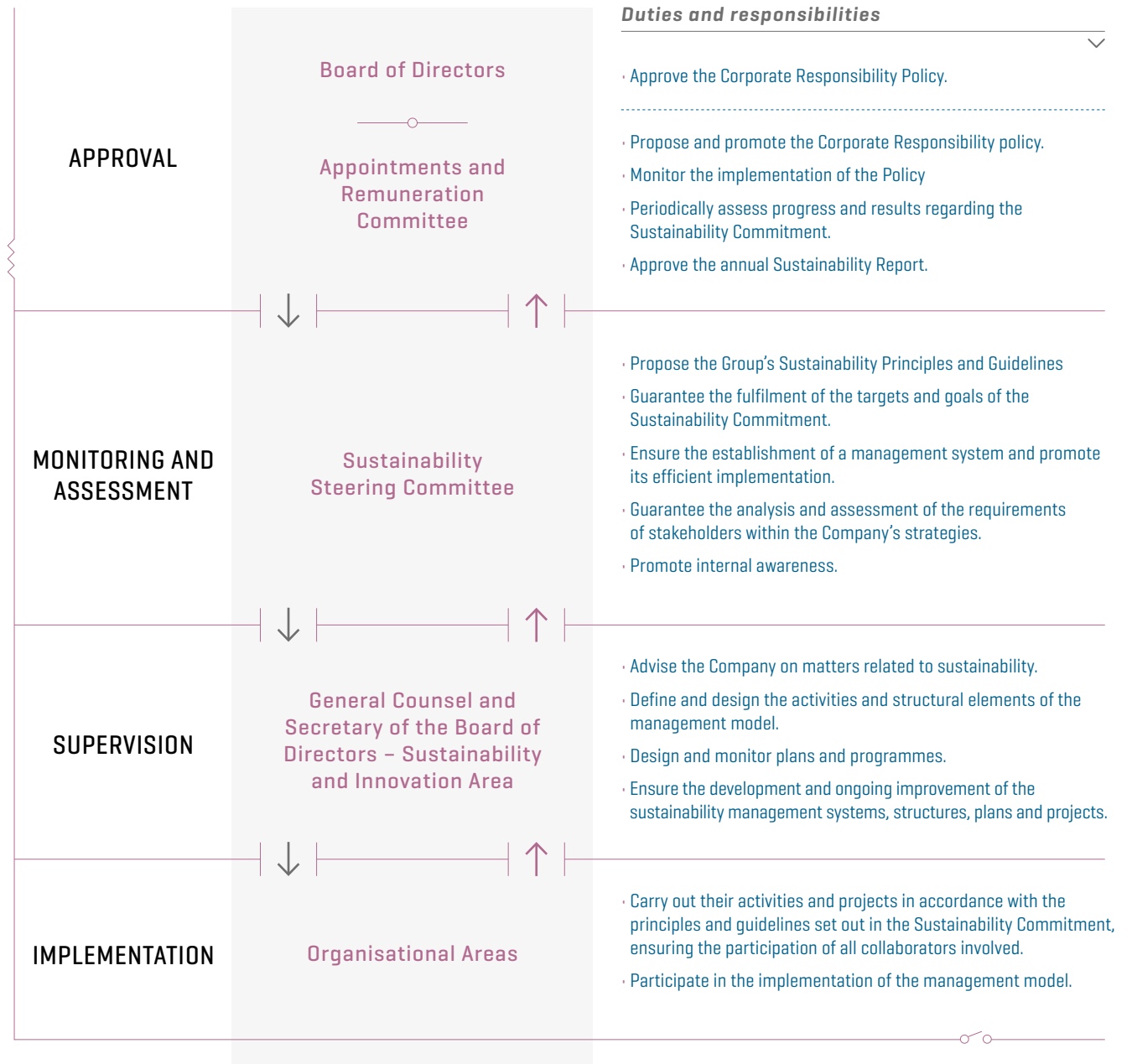
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ORGANISATIONAL STRUCTURE

The 2030 Sustainability Commitment is driven by the management team of the Red Eléctrica Group, whose message is transmitted to the entire organisation and generates a proactive attitude that incorporates sustainability into the day-to-day decision making.

In this regard, the Sustainability Steering Committee and the Sustainability and Innovation Area reinforce the implication of the highest decision-making levels of the organisation. Similarly, the Company involves all areas of the organisation in the implementation, supervision and monitoring of the Sustainability Commitment.

In 2017, the Sustainability Steering Committee held six sessions with an average attendance of 78%.





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MONITORING AND ASSESSMENT

Red Eléctrica regularly assesses its management system through tools that allow the degree of fulfilment of the commitments taken on to be assessed and the progress made in the defined objectives to be measured.

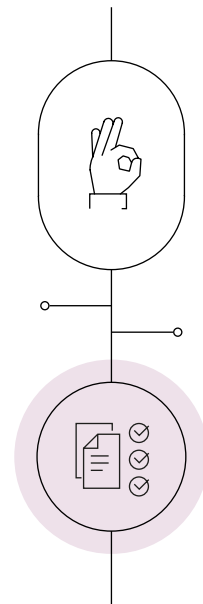
In this regard, the Company carries out a periodic monitoring of the Sustainability Indicator Scorecard, revised in 2017, in order to adapt it to the 2030 Sustainability Commitment. Similarly, Red Eléctrica's corporate responsibility management system is certified according to the international standard IQNet SR10 (Social Responsibility Management System), whose appropriate implementation is assessed annually through external audits. In 2017, the requirements for the renewal of this certification were met.

Additionally, on a periodic basis, the management system is audited internally.

THE QUEST FOR EXCELLENCE

Red Eléctrica's commitment to excellence in management is evidenced by its Quality and Excellence Policy and the Company's 2014-2019 Strategic Plan, given that excellence is one of the Company's cross-cutting strategies.

Since 1999, Red Eléctrica has adopted the **EFQM excellence model** (European Foundation for Quality Management) as a tool to achieve continuous improvement in the Company's management and results, and since 2001, carries out external assessments every two years with the aim of identifying areas for improvement, which are articulated through excellence plans, and provide data on the degree of progress regarding excellence in management. In 2017, as a result of this external assessment, the Company renewed the European Seal of Excellence 500+ with a score of over 700 points, consolidating its position among the leading companies at a national and European level. The degree of fulfilment of the 2016-2017 Excellence Plan,



97 %

Degree of fulfilment of the 2016-2017 Excellence Plan - consists of 46 improvement actions

which consists of 46 improvement actions, at the end of 2017 stood at 97%.

Furthermore, Red Eléctrica has had a certified quality system in place since 2000, which encompasses all the processes of the organisation. In 2017, this system was adapted to the new edition of the international standard UNE-EN-ISO9001 and its certification was carried out through an external audit; a process which, since 2012, has been conducted in a comprehensive manner on all certified corporate management systems.

The management of excellence and quality is carried out using a process-based management approach. In 2017, the Processes Handbook was revised, ensuring it is aligned with the Company's Functions Handbook.

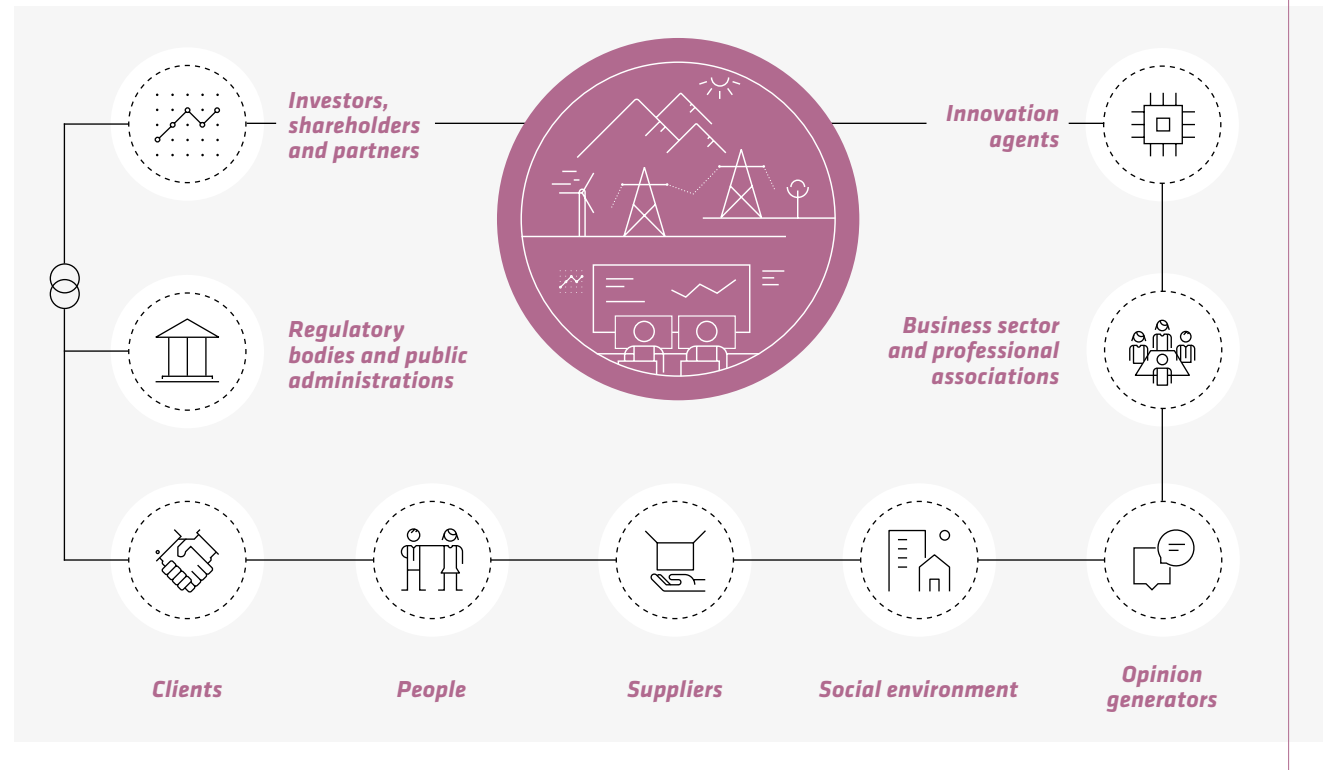
Stakeholder management model

/ 102-40 / 102-42

Red Eléctrica understands the concept of ‘stakeholders’ as all those groups affected by the services or activities of the Company as well as all those groups whose opinions and decisions have an influence on the Company’s financial results, or an impact on its reputation.

In 2017, Red Eléctrica reached the highest score (100 points out of 100) in the Dow Jones Sustainability Index criteria, which assesses a company’s commitment and performance with regard to its stakeholders.

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Red Eléctrica's stakeholder management model

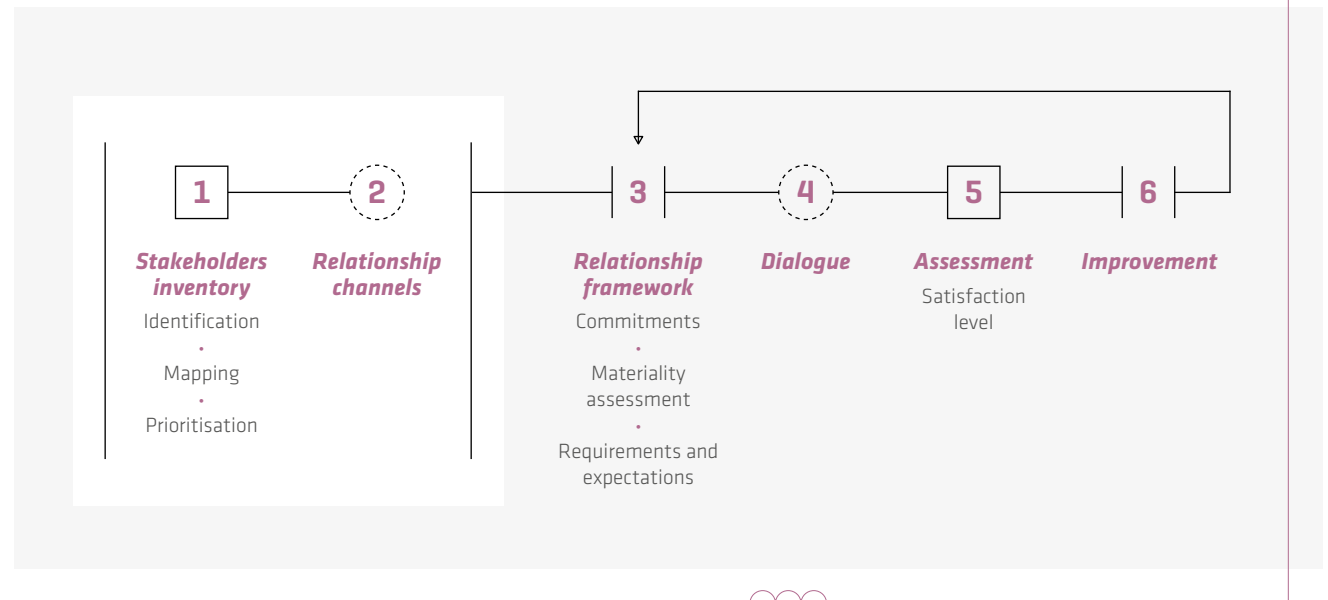
incorporates the requirements set out in the rules and standards of reference in this field.

Red Eléctrica's **stakeholder management model** incorporates the requirements set out in the rules and standards of reference in the field such as the AA1000, IQNet SR10, ISO26000 or the Global Reporting Initiative. The model ensures that relevant economic, social and environmental impacts on its stakeholders, associated to Red Eléctrica's activities and services, are managed adequately.

The stakeholder **identification and mapping phase** is performed by analysing the interrelationships between the processes and activities of the Company and its socio-economic environment. Stakeholder prioritisation is established by analysing the influence that each stakeholder group has on the achievement of the Company's strategic objectives and the impact that the Company's activities have on each stakeholder group concerned.

The **relationship framework** helps categorise the type of relationship with each stakeholder group and defines the most appropriate interaction **channels**, noteworthy of which are the satisfaction surveys that represent a key tool to establish an **ongoing dialogue**, gain a better understanding of their requirements and expectations, evaluate the Company's performance and define actions for **ongoing improvement**.

STAKEHOLDER MANAGEMENT MODEL





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MAIN ACTIONS 2017

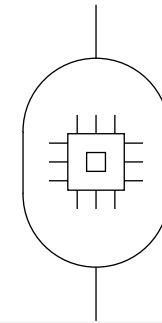
Given that the Red Eléctrica Group understands sustainability as the commitment to its long-term continuity and success through the creation of shared value for all its stakeholders, the Company considered it necessary to review

its stakeholder inventory in order to define said inventory at Group level. The update was carried out with the collaboration of representatives of internal and external stakeholders, through in-depth interviews in which the stakeholders shared their vision on the management of the Company's stakeholders, among other topics.

As a new aspect, the updated inventory has enabled a new category to be identified, called innovation agents. This category refers to the entities and professionals with whom the Red Eléctrica Group collaborates on the development of models, services and products that have innovation, broadly speaking, as a cornerstone. This category includes professionals of the Group, business partners, suppliers of goods and services and research and technological development centres.

Among the actions carried out in 2017 within the framework of the stakeholder management system, noteworthy is the 'Stakeholder management model in transmission grid investment initiatives' project that analyses the current status and the proposal for the inclusion into the project management process of an adequate stakeholder management procedure through the use of existing best practices and its alignment with the recommendations of the ISO 21500 standard.

Stakeholder GROUPS



NEW CATEGORY

Innovation agents

Employees, business partners and suppliers are, together with the research centres, the innovation agents of the Red Eléctrica Group



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The *Dígame* service offers external stakeholders various communication channels that provide a professional response to their enquiries.

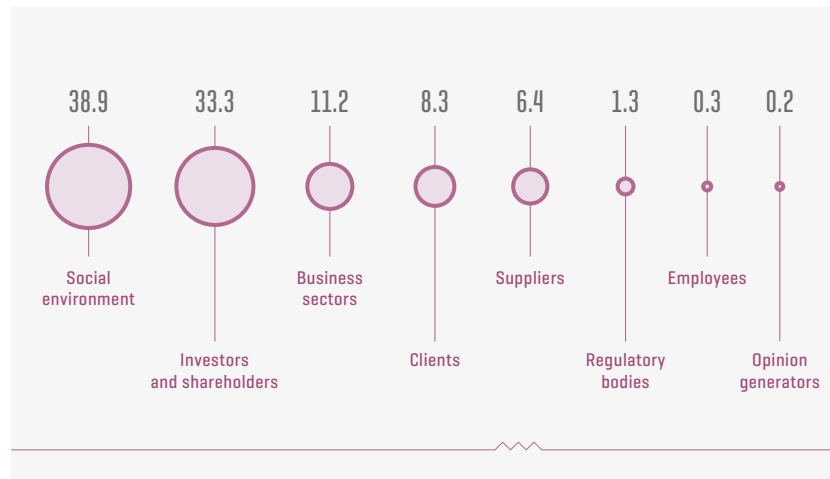
DÍGAME SERVICE
102-43 / 102-44

The *Dígame* service has guaranteed, since 2008, the professional management of all external stakeholder enquiries, by making various communication channels available (phone, e-mail and online web form). This service

is staffed by personnel from the Juan XXIII Roncalli Foundation, an organisation that works with people with some type of disability.



Dígame Service / 3,210 enquiries managed in 2017
%



Applicable grievances managed through the Dígame service in 2017

By type of grievance

Impact of facilities	31
Employment	9
Quality and continuity of supply	3
Other	6
Total	49

Claimant by stakeholder group

Social environment	44
Business sector/Professional associations	3
Other	2
Total	49

Note: An applicable grievance is understood as that which falls within the scope of the duties and responsibilities of Red Eléctrica. Of the 49 applicable grievances in 2017, 44 have been considered applicable [accepted by Red Eléctrica, as a result of considering the arguments presented as valid and reasonable for their acceptance, whether complete or partial]. These include environmental grievances. 85% of grievances that are applicable have been closed, whereas the rest are currently in process. In 2017, all grievances reported in 2016 and that were pending resolution, were closed (7 grievances).



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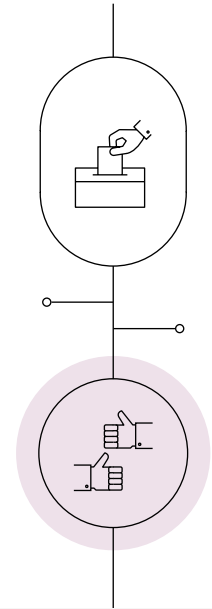
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SATISFACTION SURVEYS 102-43 / 102-44

Satisfaction surveys allow the Company to perform a quantitative and qualitative analysis of the demands and needs of the stakeholders. These surveys are conducted periodically, generally every two years, by an external consultant to guarantee the confidentiality and validity of the process.

The assessment and analysis of the needs contained in the satisfaction surveys led to the drafting of an improvement action plan and the subsequent monitoring of the fulfilment of such actions. The results of the surveys and the action plans are communicated to the stakeholder groups, and fulfilment of the same is notified to them for the next survey.

Overall SATISFACTION



8.3

OUT OF 10

Overall score of all stakeholder groups
-
Analysed in 2017

In 2017, satisfaction surveys were conducted at an external level, such as the one targeted at the Media, and also at an internal level, such as the **working climate survey.**

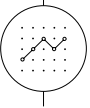


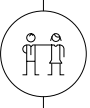
During 2017, satisfaction surveys were conducted at an external level among the Media and the satisfaction of the users of the SIMEL website. At an internal level, the working climate survey was conducted, and other surveys were also conducted to evaluate the management of IT services, IT applications, the work-life

balance and the calculation of the carbon footprint. The overall satisfaction of all the stakeholder groups analysed during 2017 was 8.3 out of 10.




Global Indicators of the stakeholder perception surveys

	2012	2013	2014	2015	2016	2017
Overall satisfaction level	8.2	8.2	8.2	8.4	8.2	8.3
Satisfaction level of the quality of services	7.9	7.9	7.7	7.9	8.0	8.0
Corporate image and reputation	8.5	8.5	8.4	8.6	8.6	8.6
Responsible and ethical member	8.1	8.1	8.1	8.3	8.4	8.3
Management of corporate responsibility	7.6	7.6	7.7	7.6	7.7	7.6
Periodic dissemination of information	7.9	7.8	7.9	8.0	8.0	8.0

OUR COMMITMENTS TO STAKEHOLDER GROUPS / 102-40

STAKEHOLDER GROUP	MAIN COMMITMENTS	MAIN COMMUNICATION CHANNELS
<p>1. Investors, shareholders and business partners</p>  <ul style="list-style-type: none"> · Institutional investors · Minority shareholders · Proxy advisors · Business partners · Financial entities 	<ul style="list-style-type: none"> · Creating value. · Good governance and risk control. · Fluid and transparent dialogue. 	<ul style="list-style-type: none"> · Shareholders' office. · E-mail from shareholders/investors. · Shareholders' Electronic Forum/Web page. · Road Shows and meetings. · Satisfaction surveys. · Corporate reports.
<p>2. Regulatory bodies and the public administration</p>  <ul style="list-style-type: none"> · Regulatory bodies and the competent Public Administration · Other Administrative authorities and public entities 	<ul style="list-style-type: none"> · Security, quality and continuity of supply. · Independence and transparency. · Effective solutions to challenges. 	<ul style="list-style-type: none"> · Periodic work meetings. · Institutional meetings. · Periodic information. · Handling of requests for information.
<p>3. Clients</p>  <ul style="list-style-type: none"> · Regulatory bodies and the Public Administration · Market agents and other · Private customer (free market) 	<ul style="list-style-type: none"> · Fulfilment of Transmission Grid planning. · Leadership and innovation. · Efficient management · Dialogue, impartiality and transparency. 	<ul style="list-style-type: none"> · Public Web and Market Agent's Web [e-sios]. · SIMEL website. · Periodic technical publications. · Client helpdesk telephone numbers. · Specific e-mail addresses. · Dígame Service. · Satisfaction surveys. · Technical committees and working groups. · Communication forums.
<p>4. People</p>  <ul style="list-style-type: none"> · Professionals of the Red Eléctrica Group · Workers/Employee representatives · Interns and Temporary Employment Agency employees 	<ul style="list-style-type: none"> · Stable employment and equal opportunity. · The work-life balance. · Professional development and recognition. · Ensuring occupational health and safety. · Freedom of association and dialogue with management. · Ethical and responsible business conduct. 	<ul style="list-style-type: none"> · Whistle-blowing channel and an enquiry channel regarding the Code of Ethics. · Corporate portal miRED 2.0. · Employee self-service site. · Employee helpdesk telephone number. · Working climate survey and services satisfaction survey. · Induction and integration programme and communication plan. · Work, social and leisure communities. · Bulletin boards and information screens · Social representation committees/panels. · Performance evaluation interview.

OUR COMMITMENTS TO STAKEHOLDER GROUPS / continued / 102-40

STAKEHOLDER GROUP	MAIN COMMITMENTS	MAIN COMMUNICATION CHANNELS
<p>5. Suppliers</p>  <ul style="list-style-type: none"> Suppliers of goods and services Technological research and development centres 	<ul style="list-style-type: none"> Compliance with contractual obligations. Ethics and transparency. Collaboration to generate mutual benefits. 	<ul style="list-style-type: none"> Channel for enquiries and grievances regarding the Supplier Code of Conduct. Specific supplier attention channel, ASA (Procurement attention and support centre). Specific area on the corporate website. Associations and working groups. Meetings and training days. Satisfaction surveys. Tenders published via DOUE and the BOE. Informative bulletin regarding construction.
<p>6. Social environment</p>  <ul style="list-style-type: none"> Local councils Social agents and associations NGOs and Foundations Environmental groups Landowners Consumer associations and the end consumer Educational entities Society as a whole 	<ul style="list-style-type: none"> Transparency regarding actions carried out and their impact. Territorial planning and community involvement. Safety and security of facilities and of the electricity supply. Ethical business practices. Protection of the natural environment. 	<ul style="list-style-type: none"> Digame Service. Satisfaction surveys. Attention channel on grid planning and development processes. Periodic meetings. Dissemination of information on the electricity system. Corporate reports. Informative brochures. Visits to facilities. Statistics of the electricity system. 'Entrelíneas' blog. Social networks.
<p>7. Opinion generators</p>  <ul style="list-style-type: none"> Financial analysts Rating agencies Sustainability analysts The Media 	<ul style="list-style-type: none"> Information transparency. Efficiency in the management of enquiries and requests. 	<ul style="list-style-type: none"> E-mail and Corporate website. Road Shows and meetings. Satisfaction surveys. Reports, press releases, training days, social networks, etc. Corporate reports. 'Entrelíneas' blog.



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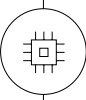


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OUR COMMITMENTS TO STAKEHOLDER GROUPS / continued / 102-40

STAKEHOLDER GROUP	MAIN COMMITMENTS	MAIN COMMUNICATION CHANNELS
<p>8. Business sectors and professional associations</p>  <ul style="list-style-type: none"> · Associations of the sector · Professional and business entities and associations · Companies of the sector · Companies of the competition 	<ul style="list-style-type: none"> · Fluid, transparent and close-knit dialogue. · Exchange of best practices. 	<ul style="list-style-type: none"> · Participation in technical committees, working groups (national and international).
<p>9. Innovation agents</p>  <ul style="list-style-type: none"> · Business partners · Professionals of the Red Eléctrica Group · Suppliers of goods and services · Technological research and development centres 	<ul style="list-style-type: none"> · Commitments indicated in other categories. 	<ul style="list-style-type: none"> · Channels indicated in other categories



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Leadership in sustainability

Red Eléctrica has been recognised as the top company in the world in sustainability in the Electric Utilities sector by the Dow Jones Sustainability Index (DJSI). Furthermore, the Company leads the Utilities super-sector, which encompasses the electricity, gas and water sectors.

The Company has reached the highest rating in 12 of the 26 criteria assessed by the DJSI, which has highlighted

the policies and performance of Red Eléctrica regarding ethical management, human capital development, stakeholder management, innovation, environmental management, climate change and biodiversity.

As a result of this excellent assessment, Red Eléctrica has received the 'Gold Class' award in 'The Sustainability Yearbook 2018' report published by RobecoSAM.

Red Eléctrica has been recognised as the **top company** in sustainability worldwide by the Dow Jones Sustainability Index.

Main recognitions received by Red Eléctrica regarding sustainability



Red Eléctrica's score in the DJSI World 2017

Overall score		Economic dimension	
RED ELÉCTRICA	93	RED ELÉCTRICA	87
SECTOR LEADER	93	SECTOR LEADER	92
Environmental dimension		Social dimension	
RED ELÉCTRICA	99	RED ELÉCTRICA	93
SECTOR LEADER	99	SECTOR LEADER	94



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COMMITMENT TO EXTERNAL INITIATIVES 102-12

Principles of the United Nations Global Compact

Red Eléctrica has a formal commitment to the Ten Principles of the UN Global Compact regarding Human Rights, Workers' Rights, the Environment and the fight against corruption.

Code of Good Tax Practices

Red Eléctrica's adoption of this entails the obligation of reflecting its effective fulfilment in the annual Corporate Governance Report.

Spanish Green Growth Group

Red Eléctrica is committed to the development of an economically, socially and environmentally sustainable model with the signing of the Barcelona Declaration.

Sustainable Development Goals (SDGs)

Red Eléctrica aligns its actions with the United Nations 2030 Agenda which sets out 17 broad goals which mark the path for sustainable development at a worldwide level.

Spanish Business and Biodiversity Initiative

Red Eléctrica is part of this initiative, promoted by the Spanish Ministry of Agriculture, Food and Environment, aimed at the inclusion of biodiversity conservation and management in the business strategies of companies.

Business Network for a Society Free of Gender-based Violence

Red Eléctrica signed up to this network, promoted by the Spanish Ministry of Health, Social Services and Equality, which seeks to move to the construction of a society free of gender-based violence.

Global Reporting Initiative

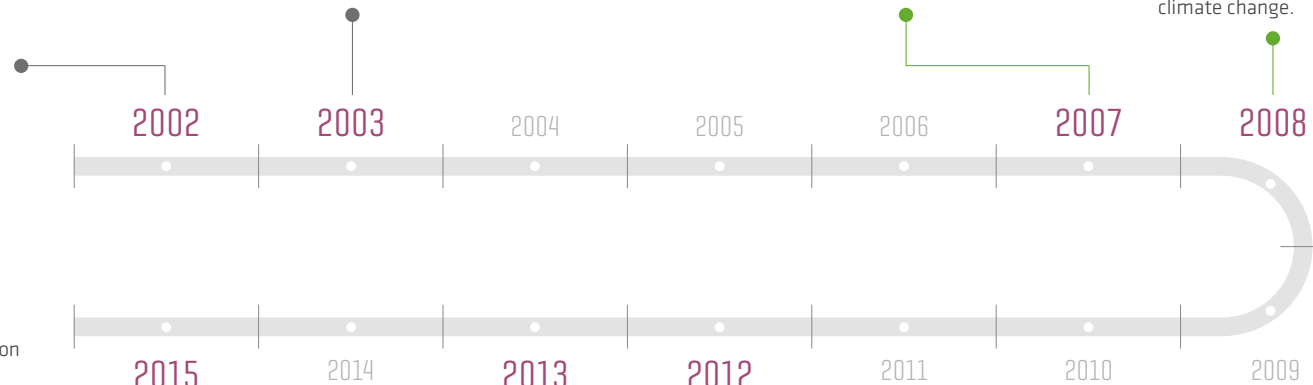
Red Eléctrica drafts its Sustainability Report in accordance to the guidelines and principles set out in the GRI Sustainability Reporting Guidelines.

Caring for Climate

Red Eléctrica signed up to this initiative promoted by the United Nations for business leadership on climate change.

Carbon Disclosure Project

Red Eléctrica annually provides information on its strategy, practices, performance and objectives in the fight against climate change.



- Global initiatives
- Environmental initiatives
- Social initiatives
- Ethical and Good Governance initiatives



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Sustainable development goals (SDGs)

The design of the 2030 Sustainability Commitment of the Red Eléctrica Group has taken into account the targets set by the Sustainable Development Goals, so that the sustainability priorities contribute significantly to the achievement of the SDGs.

Red Eléctrica, as the sole transmission agent and operator of the Spanish electricity system, holds a key position in the energy sector and, consequently, is a determining factor in the development of a sustainable energy future.

In this regard, the Red Eléctrica Group endeavours to help advance in each one of the 17 goals, although due to the nature of its business activities (transmission agent and operator of the electricity system) it contributes mainly to Goal 7 (Affordable and clean energy), 9 (Industry, innovation and infrastructure) and 13 (Climate action).





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Materiality analysis / 102-43 / 102-44 / 102-46 / 102-47 / 102-49

The 2030 Sustainability Commitment of the Red Eléctrica Group has been prepared based on the results of the materiality analysis carried out by the Company in 2016. The present report has been drafted using the sustainability reporting Standards established in the Global Reporting Initiative Standards and focuses on those issues identified as relevant in the Company's materiality analysis.

IDENTIFICATION OF ISSUES



PRIORITISATION OF ISSUES



ASSESSMENT AND VALIDATION OF ISSUES

OBJECTIVE

Analyse the sustainability context to identify the main impacts and risks that may affect the sustainability of the Group, integrating the active participation of stakeholders.

MANAGEMENT

The Company has identified a total of 24 relevant issues derived from the analysis of the sustainability context, which includes:

- Trend analysis
- Sectoral benchmarking
- Strategic interviews with the management team
- In-depth interviews with external stakeholders
- Analysis of internal information

OBJECTIVE

Internally and externally assess the criticality of the issues identified for the achievement of the Company's long-term goals and, therefore, for its long-term continuity and success.

MANAGEMENT

The prioritisation matrix offers a double analysis of the issues, revealing their internal importance, according to the senior management members involved in the analysis of the sustainability context, and their external importance, based on the assessment provided by external stakeholders consulted.

OBJECTIVE

Carry out an analysis of a cross-cutting nature within the organisation of the results derived from the identification and prioritisation of issues.

MANAGEMENT

30 different areas of the Red Eléctrica Group participated in the validation phase of the design of the 2030 Sustainability Commitment. Together with those involved, the results of the previous phases were assessed, and the opportunities associated with each of the material issues were identified, as well as their impact on the 2014-2019 Strategic Plan and their link with the Sustainable Development Goals.





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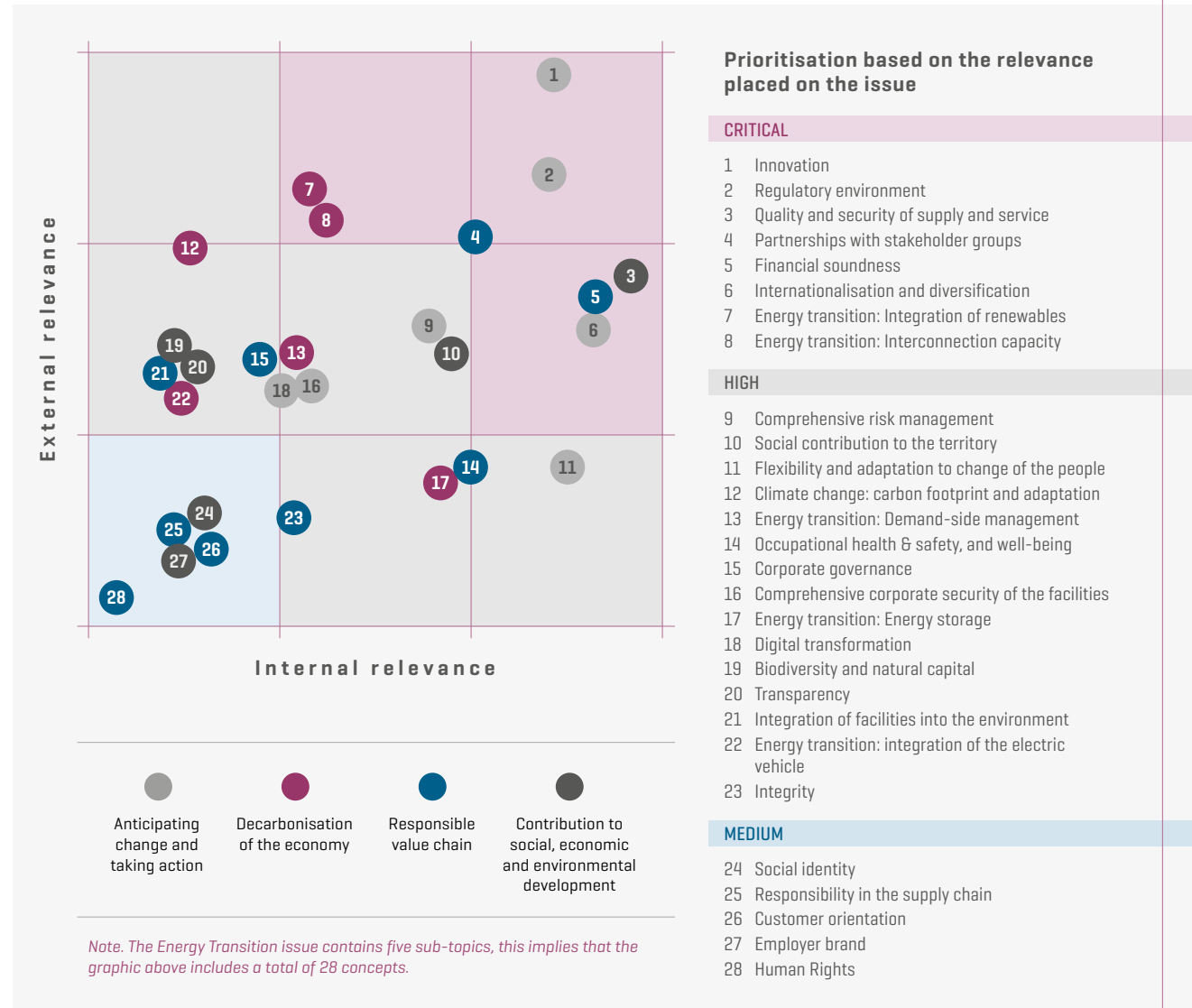
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The materiality analysis identified 24 issues of relevance for the Company and its stakeholders. Therefore, it is a key tool in order to identify the issues that constitute the sustainability priorities of the Red Eléctrica Group.

PRIORITISATION MATRIX OF MATERIAL ISSUES

The definition of each material issue is shown in the following table, as well as its connection with the topics of the Global Reporting Initiative Standards and the United Nations Sustainable Development Goals (SDGs).

MATERIALITY MATRIX





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MATERIAL ISSUES / 103-1

ISSUE	MATERIALITY CONSIDERATION	GRI TOPIC	GRI INDICATORS	SDGs	IMPACT INT / EXT
Partnerships with stakeholder groups	Social empowerment will greatly influence the development of the activities of companies, requiring new models of interaction with stakeholders, which allow their expectations to be aligned with the objectives of the companies.	Stakeholder participation Management approach	102-40 102-42 to 102-44 103-2	 	• •
Biodiversity and natural capital	The efficient use of resources requires meeting current needs without compromising future needs, developing business models that preserve and protect the natural environment in which they are carried out.	Biodiversity Effluents and waste Water	304-1 to 304-4 306-1 to 306-5 303-1 to 303-3	 	•
Quality and security of supply and service	Urban population growth in the next few years, as well as changes in the markets, raise the level of demand on companies to maintain and improve the quality and security of supply and service provided to date.	Availability and reliability System efficiency Access to electricity	EU10 EU12 EU28 and EU29	 	•
Climate change: carbon footprint and adaptation	Increased knowledge of the consequences of climate change has helped companies identify and manage associated risks and opportunities, understanding how their business can proactively and progressively contribute to the development of a zero-emissions model.	Energy Emissions	302-1 to 302-5 305-1 to 305-5	 	•
Social contribution to the territory	Society demands to know how companies contribute to the improved development of the territories in which they operate. Therefore, it is important for companies to identify the value created and shared with society.	Local communities	413-1 and 413-2	 	•
Human Rights	Companies have the obligation to respect Human Rights and make the mechanisms to solve possible human rights violations available to their stakeholders.	Management approach Non-discrimination Child labour Forced or compulsory labour Rights of indigenous peoples Human Rights assessment	103-2 406-1 408-1 409-1 411-1 412-1 / 412-2 / 412-3	 	• •
Regulatory environment	Sometimes, the rapid evolution of the markets entails the internal analysis and integration of the trends on behalf of the companies before establishing robust regulations, which implies that the entities affected by these trends may encounter problems in executing actions that would allow them to be in a better position in the future.	Specific topic of the Red Eléctrica Group	-	 	•



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MATERIAL ISSUES / continued

ISSUE	MATERIALITY CONSIDERATION	GRI TOPIC	GRI INDICATORS	SDGs	IMPACT INT / EXT
Flexibility and adaptation to change of people	Society, and especially the new generations, require companies to have an innovative people management model that reinforces the adaptability of their employees to new environments and jobs, guaranteeing the adequate management of individual talent.	Employment Training and education	401-1 to 401-3 / EU15 404-1 to 404-3	   	•
Financial soundness	Nowadays, investment decision-making incorporates sustainability criteria aimed at identifying those companies and products that generate not only economic value for the shareholder, but also social value that allows the development of a sustainable business model over time.	Economic performance	201-1 / 201-3 / 201-4		• •
Comprehensive risk management	The concern for an adequate and comprehensive management of risks related to the sustainability of companies has grown significantly, forcing companies to give an adequate response, both in the identification phase and in the management and control of such risks.	Strategy Governance Organisational profile Economic performance	102-15 102-29 to 102-31 102-11 201-2	 	•
Corporate Governance	In response to stakeholder requests, public administrations have continuously increased their demands on companies in regard to aspects such as the structure of the organisation and its regulatory compliance.	Governance Diversity and equal opportunity	102-18 to 102-39 405-1	 	• •
Social identity	Reputation and the adequate management of positive attributes linked to companies allow brands to be both better positioned and understood by society regarding the efforts made and objectives set by companies to create value.	Specific topic of the Red Eléctrica Group	-	  	•
Innovation	One of the most important levers for growth in recent years has been the search for solutions and/or new products through investment in innovation allowing more efficient alternatives to current business models to be identified.	Specific topic of the Red Eléctrica Group	-	    	• •
Integration of facilities into the environment	Public administrations and society have increased their concern about the impact that the construction of new facilities can cause on the environment, forcing companies to evaluate all possible impacts during each phase of the execution of projects.	Environmental compliance Supplier environmental assessment Customer health and safety	307-1 308-2 416-1 / 416-2	    	•

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ISSUE	MATERIALITY CONSIDERATION	GRI TOPIC	GRI INDICATORS	SDGs	IMPACT INT / EXT
Integrity	The growing number of scandals about corruption and dishonest professional business practices has generated a culture of zero tolerance and has brought with it an increase in social pressure for the establishment of stricter regulations to avoid this type of business conduct.	Ethics and integrity Socioeconomic compliance Anti-corruption	102-16 / 102-17 419-1 205-1 to 205-3		• •
Internationalisation and diversification	Internationalisation and diversification is one of the main strategies for growth and the expansion of companies; identifying new markets and optimising their business models in those markets in which they are already consolidated, seeking to improve the profitability of their actions and services.	Specific topic of the Red Eléctrica Group	-	 	•
Employer brand	Attracting and retaining the best talent represents yet another key issue for companies, mainly due to the shortage of talent that is foreseen in today's working environment. Dialogue, work-life balance, good working climate and equality are revealed as aspects of interest for new talent, which has a new way of understanding the professional business world.	Diversity and equal opportunity Management approach Freedom of association and collective bargaining	405-1 / 405-2 103-2 407-1	  	• •
Customer orientation	Companies work to improve the interaction with their consumers through mechanisms that allow them to attend to, prevent and promptly resolve disputes, as well as through the implementation of education and awareness raising practices regarding sustainability that promote responsible consumption.	Customer privacy	418-1	 	•
Responsibility in the supply chain	The economic, environmental and social performance of companies may be affected by the practices of suppliers, contractors or subcontractors. Therefore, companies must establish mechanisms to extend their commitments throughout the supply chain, extending the boundaries of their responsibility.	Procurement practices Organisational profile Supplier social assessment Supplier environmental assessment	204-1 102-9 414-1 / 414-2 308-1 / 308-2	 	•
Comprehensive corporate security of facilities	The rapid evolution of working environments and the emergence of new technologies as fundamental elements that favour the optimal management of organisations has required companies to deal with new security priority issues, requiring that it be understood as comprehensive corporate security, encompassing both logical (IT) and physical aspects.	Specific topic of the Red Eléctrica Group	-	  	• •

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ISSUE	MATERIALITY CONSIDERATION	GRI TOPIC	GRI INDICATORS	SDGs	IMPACT INT / EXT
Occupational health & safety, and well-being	The main demands of stakeholders regarding labour are related to the occupational health & safety and well-being of employees. This makes it necessary for companies to incorporate this issue into the corporate culture, extending their responsibility throughout the supply chain.	Employment Occupational Health and Safety	EU17 / EU18 403-1 to 403-4		•
Digital transformation	Digital technologies mark new ways of doing business and, therefore, new environments and competitors in the business world. Digitalisation is a key point in the integration of new trends, the development of new business models and the identification of improvements in the efficiency of services.	Specific topic of the Red Eléctrica Group	-	 	•
Energy transition: - Integration of renewables - Interconnection capacity - Demand-side management - Integration of the electric vehicle - Energy storage	Society and, especially, the Public Administration show a growing concern for the establishment of adequate mechanisms to achieve an appropriate transition towards a low carbon economy, in which the energy sector will play a key role.	Specific topic of the Red Eléctrica Group	-	 	• •
Transparency	The greater access to information and the use of new technologies means that companies are exposed to greater public scrutiny by stakeholders, which demand an increasingly higher degree of transparency.	Reporting practice	102-50 to 102-56	 	• •





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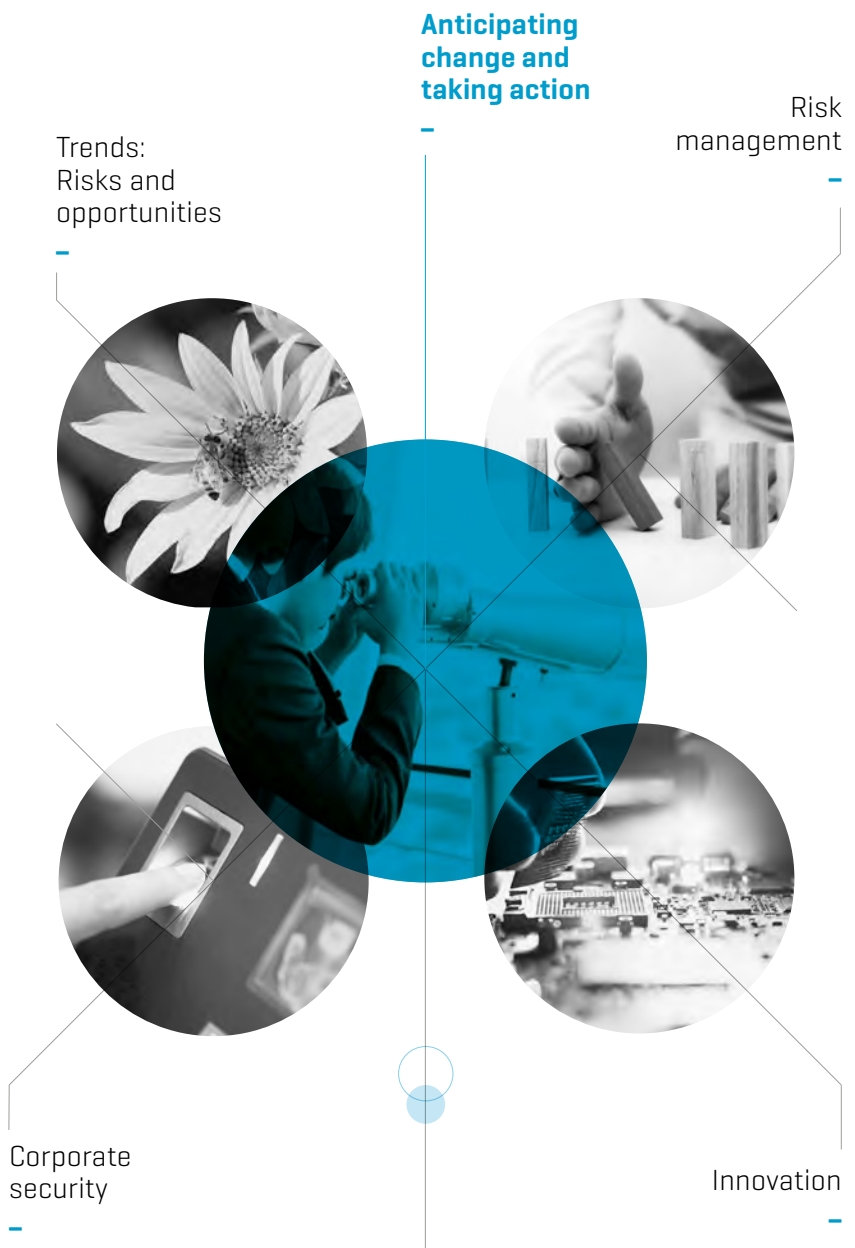


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The current global context is determined by constant change. Companies must identify the trends that will have an impact on them in the future, so that they can define their stance when facing this change. Therefore, it means advancing towards a proactive management approach capable of converting potential risks into opportunities.

In this regard, the Red Eléctrica Group takes on the following commitment as a sustainability priority:

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.



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TRENDS: RISKS AND OPPORTUNITIES





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Trends: risks and opportunities /102-15

The existing global challenges set the framework for the agendas of companies and determine their sustainability in the long term. For this reason, the Red Eléctrica Group has carried out a thorough analysis of its sustainability context, identifying the main existing trends, in order to be aware of the issues relevant to the Company's business model with a present and/or future impact.

GLOBAL TRENDS: A FUTURE CONDITIONED BY MEGATRENDS

The Red Eléctrica Group has identified four global trends or megatrends. That is, key issues with a level of global influence that will generate significant impacts, both on the business model of companies in all sectors as well as on the management of the public administrations of all countries.



The acceleration of urban development will motivate the progression of construction megaprojects to meet the needs of the population.



The consolidation of demographic changes associated with the ageing of the population will generate a greater demand for social services and may increase the overall risk concerning the loss of talent.

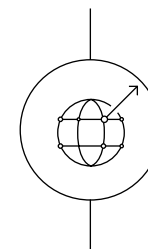


The breakthrough of noteworthy technological developments will increase the productive potential of companies and will lead to new investment opportunities.



The rebalancing of global economies will favour the development of emerging economies as major consumption centres.

Global TRENDS



KEY ISSUES
with a global level
of influence

**With relevant impacts
on the business model
of companies and
on management of the
public administrations
of all countries.**





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SUSTAINABILITY TRENDS: AREAS TO MAKE SUSTAINABLE PROGRESS ON

The Red Eléctrica Group has identified **twelve sustainability trends**, that is, key issues with a level of global influence linked to areas of sustainability management.



The definition of global objectives at the Paris Climate Summit or the Sustainable Development Goals, among others, entail the **empowerment of companies**, which are positioned as key agents for the achievement of said targets.



Investors understand the added value of sustainability and focus on the impacts that companies have in the environmental, social and good governance fields promoting the growth of **socially responsible investment (SRI)**.



Climate change has been established as a global challenge that will determine the way business is done, especially after the targets set in the Paris Agreement.



The shortage of talent increases the concern of companies to build a **good employer brand** that contributes to motivating and retaining existing talent.



The European Commission focuses on the **protection of nature and biodiversity** in its action plans and the main financial institutions are committed to integrating natural capital considerations into their products and services.



The existence of greater demands made by society to the companies makes them understand the need to value the positive impact generated, making the **social footprint** a key argument of corporate discourse.



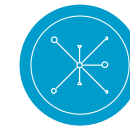
Socially responsible investment funds focus on **integrating the environmental variable in financing**.



The **lack of resources** is brought to the forefront and the **circular economy** consolidates itself as a system to guarantee the efficient use of resources.



Exposure to risks linked to **water** increases and is established as a factor with the potential to limit the business growth of companies.



Companies assume increasing responsibility with respect to their value chain making it necessary to have a **sustainable management of the supply chain** that converts suppliers into a business partner.



Companies are increasingly concerned about improving the **ethics, compliance and corporate governance** systems, taking transparency as the determining tool for generating trust with their stakeholders.



The increasing requirement for **accountability to third parties** is driven by the development of new reporting frameworks for non-financial information, as well as by new requirements derived from external assessments to which companies are subject.



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The single European energy market and the development of North Africa are, for the European Union, factors representing the need to increase the interconnection capacity from now until 2020.

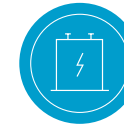


SECTORAL TRENDS: MOVING TOWARDS A NEW ENERGY MODEL

The Red Eléctrica Group has identified **four sectoral trends**, that is, key issues with a high level of influence in the scope of activity of the Red Eléctrica Group.



The European Union foresees the need to increase the **interconnection capacity** between now and 2020, with focus on two aspects: create a single European energy market and support the development of North Africa.



The electrification of the energy system and, consequently, a greater **integration of renewable energies** in the mix, is a key element in the transition towards a low carbon economy.



The development of **energy storage** projects allows for backup energy ensuring a reliable and quality supply in electricity systems, integrating the variable of renewable generation.



Self-consumption constitutes a new technological reality for the electricity sector, compatible with the existence of transmission grids and distribution networks that guarantee supply.



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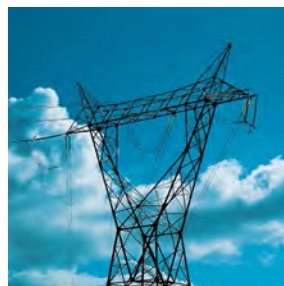
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SUSTAINABILITY OPPORTUNITIES

The 2030 Sustainability Commitment has made it possible to integrate a long-term vision into the Company. As a result, the Red Eléctrica Group has identified a series of challenges and opportunities (see diagram) that make up the roadmap to be followed by the Company in the coming years.

These global opportunities join those derived from the fight to curb **climate change**, which implies a change in the energy model and in the transmission model. The policies established at European level are clearly aimed at achieving these goals.

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 its management), the necessary advances to improve the efficiency of the system and changes in mobility policies (through the promotion of rail transport and the development of the electric vehicle) represent a clear need for new investment in the transmission grid (in terms of new lines and interconnections) and, therefore, a clear business opportunity for the Company.

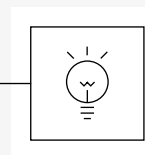


The fight to curb climate change implies a change in the energy model and the transmission model, as established by European policies.

CHALLENGES AND OPPORTUNITIES

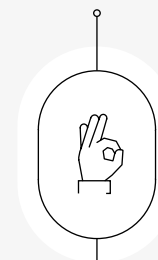
Actively collaborate

on the definition of the future energy model, identifying opportunities to generate value in the services offered.



Consolidate innovation

as a key lever for growth, thanks to the application of new knowledge and ways of expanding on existing knowledge.

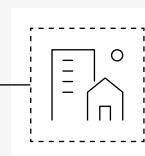


Showcase

the contribution of the Red Eléctrica Group in the achievement of objectives defined in global commitments, such as the Paris Agreements (COP21) and the Sustainable Development Goals.

Encourage the participation

of society in all development stages of projects by integrating social and environmental criteria.



Anticipate the future needs

for professional profiles, guaranteeing a professional environment capable of attracting and retaining the talent needed to tackle the future scenario.





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RISK MANAGEMENT





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Risk management_{/102-11}

The Red Eléctrica Group has a comprehensive risk management system in place in order to facilitate compliance with the Group's strategies and objectives, ensuring that the risks that could affect them are identified, analysed, assessed, managed and controlled in a systematic manner, with uniform criteria and within the level of acceptable risk approved by the Board of Directors.

The Management System conforms to the ISO 31000 standard on the principles and guidelines in risk management and is ongoing and comprehensive in nature, consolidating said management per business unit, subsidiary and support areas at a corporate level.

The Red Eléctrica Group has a Comprehensive Risk Management Policy and a Comprehensive Risk Management and Control Procedure, based on the Comprehensive Risk Management Framework COSO II [Committee of Sponsoring Organisations of the Treadway Commission].

COMPREHENSIVE RISK MANAGEMENT POLICY

This policy, approved by the Board of Directors, aims to establish the principles and guidelines of the Risk Management System, and integrates the policy for the control and management of tax risks.



Characteristics of the Comprehensive Risk Management Policy

- Aligned with the Group's strategic plan.
- Identifies the various risk categories.
- Establishes the Group's **acceptable risk level**.
- Provides **action guidelines** to manage and mitigate those risks.



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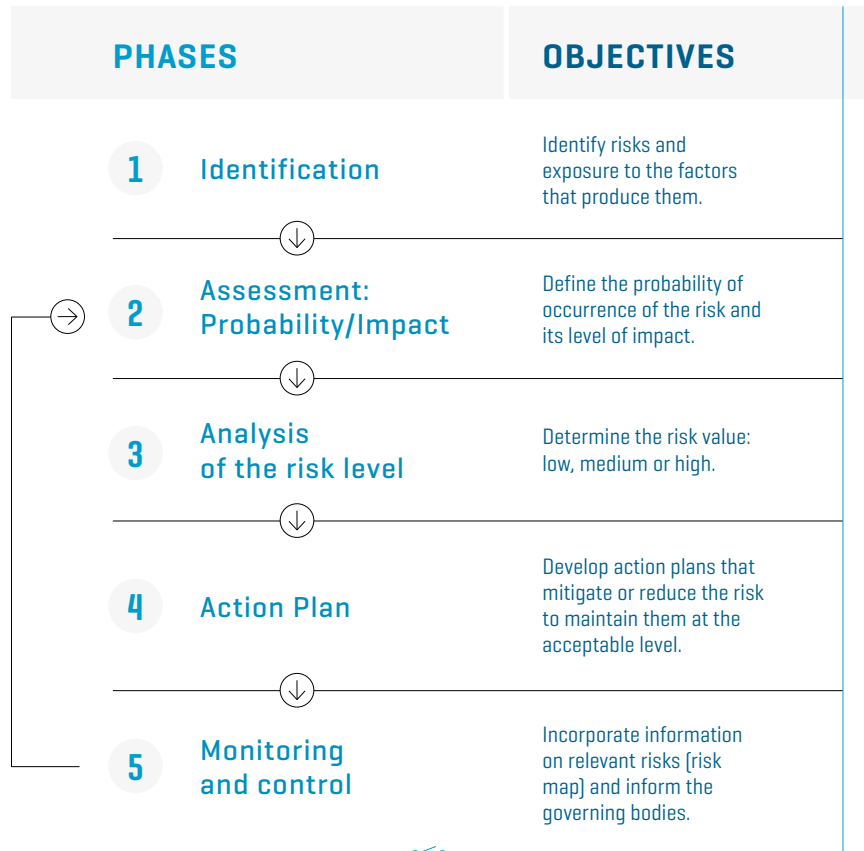


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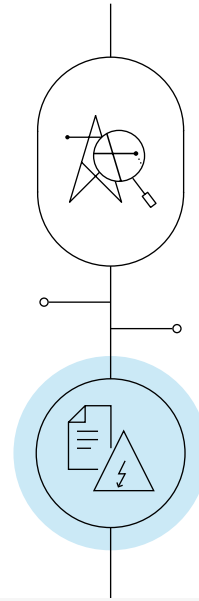
COMPREHENSIVE RISK MANAGEMENT PROCEDURE

The **General Comprehensive Risk Management and Control Procedure** regulates the process of identification, analysis, assessment and control of the management of the relevant risks faced by the Group. This process is

carried out in order to ensure that the various levels of management of the Group are fully aware of and assess the risks that threaten the Group's strategies and objectives, and that the management of these risks is undertaken in accordance with the acceptable risk limits established.



Risk MANAGEMENT



COMPREHENSIVE RISK MANAGEMENT

Analysis, assessment and control of relevant risks faced by the Group - **Management within the acceptable risk limits established**

ORGANISATIONAL STRUCTURE 102-30 / 102-31

The **risk management system** is comprehensive in nature, to the extent that all units of the Group and the different governing bodies participate in it, as part of a systematised management process, in accordance with the guidelines and criteria established in the general Procedure and Policy for Comprehensive Risk Management and Control. In these documents, the different responsibilities of the governing bodies and those of each of the organisational units are defined, as well as the flow of information and the activities to be undertaken by the various bodies [see organisational diagram on the next page].



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ORGANISATIONAL STRUCTURE REGARDING RISK MANAGEMENT AND CONTROL

- Approve the Comprehensive Risk Management Policy of the Group.
- Approve the criteria for the acceptable risk level.
- Periodic monitoring of the efficiency of the comprehensive risk management system.



**Board of Directors
Audit Committee**

**Advisory Committee to the
Chairman's Office**



- Monitoring of the relevant risk map.
- Ensure the adequate control and monitoring of risk management and mitigation action plans.

GUIDELINES



INFORMATION

- Support organisational units of the Group in the implementation of the Comprehensive Risk Management and Control Procedure.
- Control that risks are managed within the acceptable risk level established and in accordance with the principles and guidelines set out in the Comprehensive Risk Management Policy.
- Monitor the risk level of the Group and the evolution of its risks.
- Ensure information on risks flows to the bodies responsible for their control and from these to the units responsible for the management of the corresponding processes or projects.



**Internal Audit and Risk Control
Management Area [*]**



**Organisational units responsible
for the process or projects**



- Identify and report to the Internal Audit and Risk Control Management Area on the appearance of new relevant risks, or relevant changes in risks already identified, that may have an impact on the activities, processes and projects managed.
- Assess relevant risks with the support of the Internal Audit and Risk Control Management Area and manage such risks.
- Manage the activities, processes and projects in accordance with the acceptable risk level established. Design and execute, when appropriate, action plans to take the risks to the corresponding acceptable level and maintain them at said level. Carry out said management in accordance with principles and guidelines established in the Comprehensive Risk Management Policy.

[*] This management area reports to the Chairman's Office.



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The execution of the transmission and operation activities of the electricity system is critical for the security and continuity of the electricity supply.

RISK STRUCTURE 102-15

The core business of the Red Eléctrica Group is the transmission of electricity and the operation of the electricity system in Spain. Said activities are regulated in as far as they are critical to the security and continuity of the electricity

supply and are carried out on an exclusive basis. This classification as a regulated activity affects not only the setting of regulated income and the social, economic and environmental aspects, but also the conditions that must be met by the Company when undertaking its main activity.



Types of risk of the Red Eléctrica Group

OPERATIONAL RISKS

- Operational risks that may affect the electricity system and that are related to the proper functioning of the Transmission Grid and System Operation.
- Environmental risks and those related to people. These risks are mainly associated with the location in which the activities are carried out and the safety of the people assigned to the works.
- Comprehensive corporate security risks. This groups together the risks related to physical security and cybersecurity.
- Other operational risks. Those of an operational nature not included in the aforementioned types.

REGULATORY RISKS:

- Regulatory risks related to being Spanish TSO. Those risks related to regulations that affect the Group in its activity as the Spanish TSO.
- Other regulatory risks, derived from regulations other than those governed by the above. This especially includes tax risks, which are those produced by the application of the tax regulation as well as the interpretative complexity or amendments to the same, and the possible reputational impacts in the management of tax affairs.

FINANCIAL AND COUNTERPARTY RISKS

- Financial and counterparty risks. Corresponds to financial risks, market risks and those related to the non-compliance of counterparties in relation to their contractual obligations:

BUSINESS DIVERSIFICATION RISKS

- Risks associated with the telecommunications business.
- Risks due to international business. Encompasses those risks associated with the activities carried out by the Group through its subsidiaries abroad.

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RISK TOLERANCE LEVEL

The level of risk that the Red Eléctrica Group is willing to accept is established both for the risks individually and in aggregate form (level of global acceptable risk). The Risk Management System of the Red Eléctrica Group defines a methodology for the determination of acceptable risk. In this way, all identified risks are classified into three categories: high-level risks, medium-level risks and low-level risks.

Two parameters are used to establish the level of a risk, which are the probability of occurrence and the impact it would have for the Company should the risk materialise. This may have an impact on four key elements of the business as detailed below:

Depending on the probability of occurrence and the level of impact of each risk, it is positioned in the probability/impact matrix, which automatically determines the level of risk, which may be low, medium or high.

As a result of the risk analysis carried out by the Red Eléctrica Group in the most recent Risk Map, the distribution of risks according to the categories and levels defined above is included in the 'Risk distribution by category and level' chart.

In accordance with the Comprehensive Risk Management Policy, at an individual level, any risk that does not exceed the level of low risk will be considered acceptable. Risks that exceed this level must be subject to actions until the acceptable level is reached to the extent that the risk is manageable, and the cost of mitigation measures

ELECTRICITY SUPPLY

Measured by the Energy Not Supplied (ENS) that would result should the event take place.

ACHIEVEMENT OF THE ESSENTIAL STRATEGIES

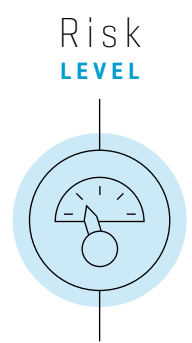
Degree of impact on the achievement of the essential strategies.

REPUTATION

Degree of impact on the reputation (geographical scope, duration and ability to restore it).

ECONOMIC LOSS

Impact on the income statement before Corporate Tax.



TWO PARAMETERS: probability of occurrence and the impact it would have on the Company

is justified by the impact that the materialisation of the risk may have on the Group.

The Board of Directors approves the level of global acceptable risk that the Group is willing to assume for each of the four types of impacts contemplated in the Comprehensive Risk Management System, already mentioned. As general criteria for risk management, the Group's overall risk level, determined as a result of the statistical aggregation of individual risks, must not exceed this level of globally acceptable risk.

Risk distribution by category and level N°.





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RISKS MATERIALISED IN 2017

During 2017, no noteworthy risk materialised.

Transmission grid facilities are exposed, permanently, to operational events that may have an impact on the continuity and security of the electricity supply.

In 2017, there were events whose consequences were power outages of minor importance. In general, these events are caused by third parties and by extreme weather conditions. Given these events, the control systems have worked properly, as evidenced by the availability index of the peninsular transmission grid, which in 2017 was 98.28%.

The Group also has insurance policies that limit the potential impact of these events on the Company's income statement.

RESPONSE AND MONITORING PLANS

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

For the monitoring of risks, the current risk management system includes the **monitoring of more than 500 action plans** aimed at reducing the level of risk and **more than 300 indicators** to monitor their evolution.

For high-level risks and others of special relevance these are monitored every six months, and for the rest of the risks these are monitored annually, and when circumstances dictate for specific risks. **The Internal Audit and Risk Control Management Area reviews, with the management units, the evolution and impact of the action plans** previously established to reduce said risks.

Additionally, actions are carried out with other Group units for the development of risk management in line with the Comprehensive Risk Management System. Thus, in 2017, work was carried out



on the development of the risks map of regulatory compliance and comprehensive corporate security.

Furthermore, Red Eléctrica has **contingency plans** that regulate the various crisis situations that could arise in the event of an electrical incident (to guarantee security of supply), or non-electrical that could have an impact on the environment, people, and the operational aspects of the Company, the availability of its systems, business results or any other event that has an impact on the Company's reputation.

The Company also has an action guide for the management of cyber-incidents, updated in 2017,

which establishes the criteria and guidelines for the management of any incident related to cybersecurity.

In a supplementary manner, Red Eléctrica has a System of Internal Control over Financial Reporting (ICFR), with the aim of obtaining efficiency and security in the processes for the drafting of economic and financial information about the Company, adopting international best practices, in a timely and voluntary manner. The ICFR includes Red Eléctrica's tax information and proceedings as well as the associated controls.

MAIN RISKS OF THE RED ELÉCTRICA GROUP AT PRESENT / 102-15 / 102-29

TYPE OF RISK	DESCRIPTION	MAIN RISK MANAGEMENT ACTIONS
Regulatory risks as TSO		
Risk of changes to the electricity system regulation	<ul style="list-style-type: none"> · Risk of regulatory changes occurring that could have a negative impact on the activities related to transmission and system operation. 	<ul style="list-style-type: none"> · Dialogue with the Regulator. · Presentation of proposals to the Regulator.
Other regulatory risks		
Other regulatory risks	<ul style="list-style-type: none"> · Tax risks. · Changes in environmental regulation. 	<ul style="list-style-type: none"> · Adherence to the Code of Good Tax Practices. · Setting up of the tax strategy of the Red Eléctrica Group. · Incorporation of Tax Risk Policy into the Comprehensive Risk Management Policy of the Group. · Adaptation to the legislation related to climate change.
Operational risks of the electricity system		
Risks related to power outages and the evacuation of generation	<ul style="list-style-type: none"> · Risk of a breakdown/fault occurring in the facilities that may significantly impact on the electricity system, causing power outages on the Spanish Peninsula or on the Islands. 	<ul style="list-style-type: none"> · Emergency equipment and procedures. · Periodic inspections of equipment and systems. · Preventive and predictive maintenance programmes. · Renovation and improvement plans for facilities. · Improvement of grid meshing and increase in the construction of facilities to deal with the Electricity Infrastructure Plan approved by the Government. · Contracting insurance policies to cover possible damages that can be derived from an incident. · Contingency plans.
Risks associated with the operation of the system	<ul style="list-style-type: none"> · Human errors in the coordination or configuration of equipment. · Malfunction of telecommunications. · Failure of computer systems that support the activity. 	<ul style="list-style-type: none"> · Strengthening of the transmission grid. · Power service restoration plans. · Plan for the renovation and improvement of facilities. · Improvement of the telecommunication systems. · Implementation of security mechanisms in the IT used. · Ongoing training of operators. · Contingency plans.



MAIN RISKS OF THE RED ELÉCTRICA GROUP AT PRESENT / continued

TYPE OF RISK	DESCRIPTION	MAIN RISK MANAGEMENT ACTIONS
Comprehensive corporate security risks		
Risks that may affect the security of facilities	<ul style="list-style-type: none"> Impact on security in facilities (substations, control centres, buildings, etc.) such as vandalism, sabotage, theft, terrorism, etc. 	<ul style="list-style-type: none"> Security systems in facilities. Service for the permanent monitoring of facilities. Contact with the Spanish Civil Guard and National Police. Comprehensive Corporate Security Management Model. Consultation and collaboration with the CNPIC (National Centre for Critical Infrastructure Protection). Operator Security Plan (OSP) and Specific Protection Plans (SPP).
Risks related to cybersecurity	<ul style="list-style-type: none"> Non-availability of systems. Unauthorised access to specific IT applications. 	<ul style="list-style-type: none"> Fire walls and anti-intrusion systems Antivirus systems Increase in the security of access requirements Mechanisms for the detection of incidents Software updates Hacking simulations Training and awareness programmes. Comprehensive Corporate Security Management Model. Consultation and collaboration with the CNPIC (National Centre for Critical Infrastructure Protection). Development of the Operator Security Plan (OSP) and Specific Protection Plans (SPP). Action guide in the event of cyber-incidents.
Risks associated to the environment and the health and safety of people		
Risks of impact on the environment	<ul style="list-style-type: none"> Impact on flora. Impact on fauna especially birdlife. Contamination of soil and water. Impact on archaeological heritage. Risk of fires. 	<ul style="list-style-type: none"> Application of strict environmental criteria in all phases of planning, development and maintenance of facilities. Environmental supervision of construction works. Biodiversity strategy and actions. Development of research projects and fire prevention plans. Projects for birdlife conservation. Environmental training courses for field staff. Environmental awareness of suppliers. Environmental supervision of construction works. Implementation of Environmental Work Certification. Establishment of collaboration agreements in the field of environmental protection with the various Autonomous Communities. Fire protection plans. Contingency plans.

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TYPE OF RISK	DESCRIPTION	MAIN RISK MANAGEMENT ACTIONS
Risks derived from climate change / 201-2	<ul style="list-style-type: none"> Changes in legislation motivated by climate change. Physical risks on the facilities: <ul style="list-style-type: none"> Changes in the properties of the conductors. Decrease in conductivity. Impacts caused by wind, electrical discharges, extreme rainfall, etc. Accumulation of pollutants. Effects of climate change on the operation of the system. Emissions of greenhouse gases. 	<ul style="list-style-type: none"> Commitment and action plan for the fight against climate change. Voluntary Agreement for the comprehensive management of SF₆ in the electricity industry, between the Ministry of Agriculture, Food and Environment, equipment manufacturers (AFBEL), UNESA, REE and waste management companies. Development of system operation tools (CECRE). Construction of new transmission lines for the evacuation of renewable energy. Strengthening of international interconnections. Development of demand-side management initiatives (interruptibility service, measures to achieve a more efficient consumption profile, and initiatives for the implementation of the electric vehicle). Development of research and innovation projects: new technologies and technical solutions for efficient system management, new tools for emergency situations, smart demand-side management, energy storage.
Risks related to management and employees	<ul style="list-style-type: none"> Lack of motivation and competencies of staff to reach the Company objectives. Fraud and corruption. Workplace accident rate. Conforming to occupational health and safety risk prevention. 	<ul style="list-style-type: none"> Development programmes for experts and directors. Work-life balance policy and implementation of a management system. Hiring of young employees with potential. Maintenance and improvement of the structured risk prevention system in accordance with the OHSAS 18001 standard. EFR1000 certification (Family-Responsible Company - known as EFR in Spain). Implementation of the Code of Ethics, the whistle-blowing channel and audits. Application of the staff appraisal system. Technical Procedures for the organisation of safety. General procedure for accident management and incidents. Operational Group regarding Prevention.
Other operational risks	<ul style="list-style-type: none"> Failure of the processes associated with certain activities of the Group such as engineering, construction, procurement, human resources, etc. 	<ul style="list-style-type: none"> Controls implemented in each process. Specific action plans. Contingency plans.

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MAIN RISKS OF THE RED ELÉCTRICA GROUP AT PRESENT / continued

TYPE OF RISK	DESCRIPTION	MAIN RISK MANAGEMENT ACTIONS
Financial and counterparty risks		
Risk of increased costs of equipment and raw materials	<ul style="list-style-type: none"> · The control of the price of equipment and raw materials is a key part of the management of the construction and maintenance activities. 	<ul style="list-style-type: none"> · Promote competition. · Increase normalisation and standardisation. · Drafting of turnkey contracts. · Assurance of the price of raw materials and/or the €/€ exchange rate in large projects.
Risk of increase in the interest rate	<ul style="list-style-type: none"> · Variations in interest rates that may detract from that contemplated in the Strategic Plans of the Company. 	<ul style="list-style-type: none"> · Periodic reviews of interest rates and their impact on the income statement. · Maintaining the percentages of the fixed / variable financial structure. · Monitoring of possible actions that would imply a revision that could entail a downgrading of the rating. · Development of a financial risk policy and instruments for its management and control. · Establishment of new financing mechanisms that allow access to markets in an agile and efficient manner.
Unfavourable variations in exchange rates	<ul style="list-style-type: none"> · Possible negative impacts due to the unfavourable variation in exchange rates. 	<ul style="list-style-type: none"> · Establishing hedging mechanisms for transactions performed in non-euro currencies. · Development of a Financial Risk Policy and mechanisms for its management and control. · Design of an international financing scheme.
Inadequate coverage when faced with claims	<ul style="list-style-type: none"> · Insufficient coverage when faced with a significant increase in claims made against the Company. · Loss of solvency of the reinsurance company. 	<ul style="list-style-type: none"> · Provisioning. · Ongoing monitoring of the level of claims. · Reinsurance risk.
Risks of the telecommunications business		
Risks that can affect the business	<ul style="list-style-type: none"> · Operational and business risks related to the telecommunications business. 	<ul style="list-style-type: none"> · Monitoring the quality of service provided. · Monitoring the portfolio of clients.
Risks of business abroad		
Risks to foreign subsidiaries	<ul style="list-style-type: none"> · Regulatory and operational risks of foreign subsidiaries. 	<ul style="list-style-type: none"> · Maintaining good relationships with agencies and organisations where the subsidiaries are located. · High-quality standards in the services offered. · Monitoring of regulatory developments and economic evolution. · Monitoring of the projects undertaken by subsidiaries.

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MAIN RISKS OF THE RED ELÉCTRICA GROUP AT PRESENT / continued

TYPE OF RISK	DESCRIPTION	MAIN RISK MANAGEMENT ACTIONS
Risks that may emerge in the future		
Changes in the regulatory framework	<ul style="list-style-type: none"> Regulatory changes with an impact on the activities of Red Eléctrica. 	<ul style="list-style-type: none"> Active participation in ENTSO-E. Increased role in national and international forums. Communication with the regulators. Business diversification.
Major environmental and social demands in projects	<ul style="list-style-type: none"> Delays or increased costs in the execution of projects. 	<ul style="list-style-type: none"> Communication plan of the environmental and social activity. Maintain relationships with relevant institutions.
Increase of political uncertainty	<ul style="list-style-type: none"> Worsening of the situation of markets and international relations. 	<ul style="list-style-type: none"> Development of activities in regions that offer political and economic stability.
Changes in the electricity model due to the breakthrough of new technologies	<ul style="list-style-type: none"> Cost of adaptation to changes. 	<ul style="list-style-type: none"> Efficiency actions contemplated in the Group's strategic plan. Promote innovation in the Group's activities.



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Corporate Security

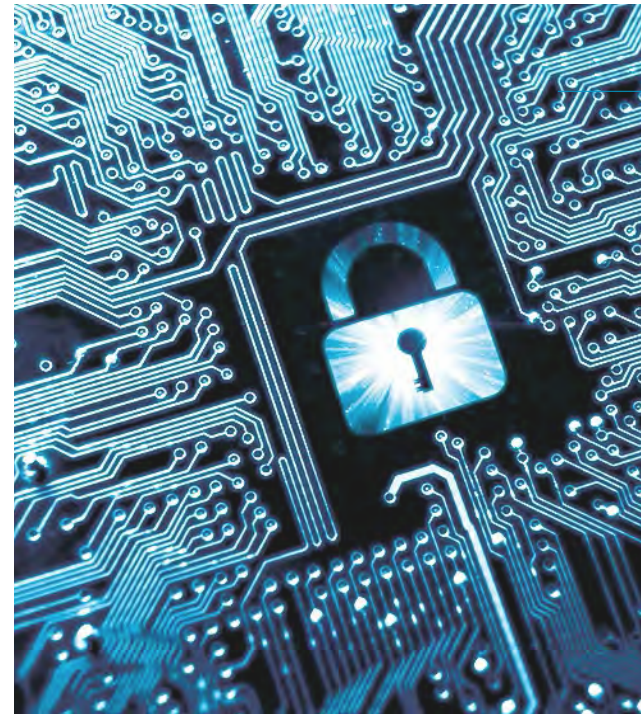
In order to guarantee comprehensive corporate security in the present and in the future, anticipating and adapting to global trends and the environment as part of its ‘anticipating change and taking action commitment’, Red Eléctrica has opted to combine security, giving it a corporate and global character for the entire Group. Thus, security is not only understood as the protection of critical infrastructure, but also the protection of people and information assets.

This way of conceiving security in a broad and interdisciplinary way allows us to respond to physical and cyber-threats in a global and comprehensive manner. Currently the trendsetters are:

- The new regulatory developments [adaptation to the standard for critical infrastructure protection].

- Alliances with the National Centre for Critical Infrastructure Protection and the National Cybersecurity Institute.
- The new services currently available [security based on risk analysis and control].
- New trends [implementation of new technologies].

The first objective of Red Eléctrica has been to define a Comprehensive Corporate Security Management Model, whose strategy and measures allow the Company to prevent, protect and react to risks and threats that may affect the physical security of people, assets, logical security and the security of the Group's information.





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COMPREHENSIVE CORPORATE SECURITY MANAGEMENT MODEL

The governance, management and operation model of the Red Eléctrica Group, approved in September 2017, is based on good practices and existing standards in these fields. The model covers the eleven capabilities that an organisation must have in order to maximise its resilience in adverse situations.

- **Risk management:** automated and dynamic treatment of security risk.
- **Security plan:** develop, implement and monitor the security plan, as well as establish collaboration and cooperation mechanisms.
- **Assets, changes and configuration:** asset management in accordance with security guidelines during the asset's lifecycle.
- **Exchanges of information:** establishment and implementation of a secure information management model.
- **External dependencies:** establish the necessary control mechanisms associated with the services provided by the supply chain.

- **Personnel involved in security:** implementation of a security structure and improving the level of security awareness among staff.
- **Incidents and continuity of operation:** increase resilience to undesired events.
- **Threats and vulnerabilities:** establishment and implementation of a management model for the control of threats and vulnerabilities of assets, including intelligence services.
- **Identities and accesses:** establish mechanisms to control access to the assets of the organisation and identity management.
- **Regulatory compliance:** establishment and implementation of a regulatory framework for comprehensive corporate security, as well as compliance with national and international security regulations.
- **Situational awareness:** monitoring and reporting of the Group's security status.

The aforementioned capabilities, following that established by standards, are addressed based on a three-tier structure:

COMPREHENSIVE CORPORATE SECURITY GOVERNANCE

Tier level responsible for defining the strategic objectives in this matter essentially through a strategic plan for comprehensive corporate security and for monitoring its correct implementation according to the objectives and strategies of the business.

COMPREHENSIVE CORPORATE SECURITY MANAGEMENT

Tier level responsible for defining the Comprehensive Corporate Security Plan that must meet the requirements defined by the governing body, as well as managing the functions and security processes arising from said plan.

COMPREHENSIVE CORPORATE SECURITY OPERATIONS

Tier level responsible for the execution of the Comprehensive Corporate Security processes related to the infrastructure, always within the guidelines and limits established by Management.



COMPREHENSIVE CORPORATE SECURITY ACTION PLAN

For the drafting of the **action plan [2017-2019]**, an analysis of the current situation of the security status has been conducted for all the assets, information systems, operation systems and physical security groups.

In the first phase of the implementation of the comprehensive corporate security model, the actions will focus on the most critical capabilities for the Group's business, prioritising the actions of the governance and management tiers. Efforts will be focused on those capabilities which are most critical:

- Risk management
- Assets, changes and configuration
- Incidents and continuity of operation
- Threats and vulnerabilities

In order to measure the degree of implementation and availability of each of the capabilities of the model, four stages of maturity will be used to indicate the status and progress of each of the capabilities.



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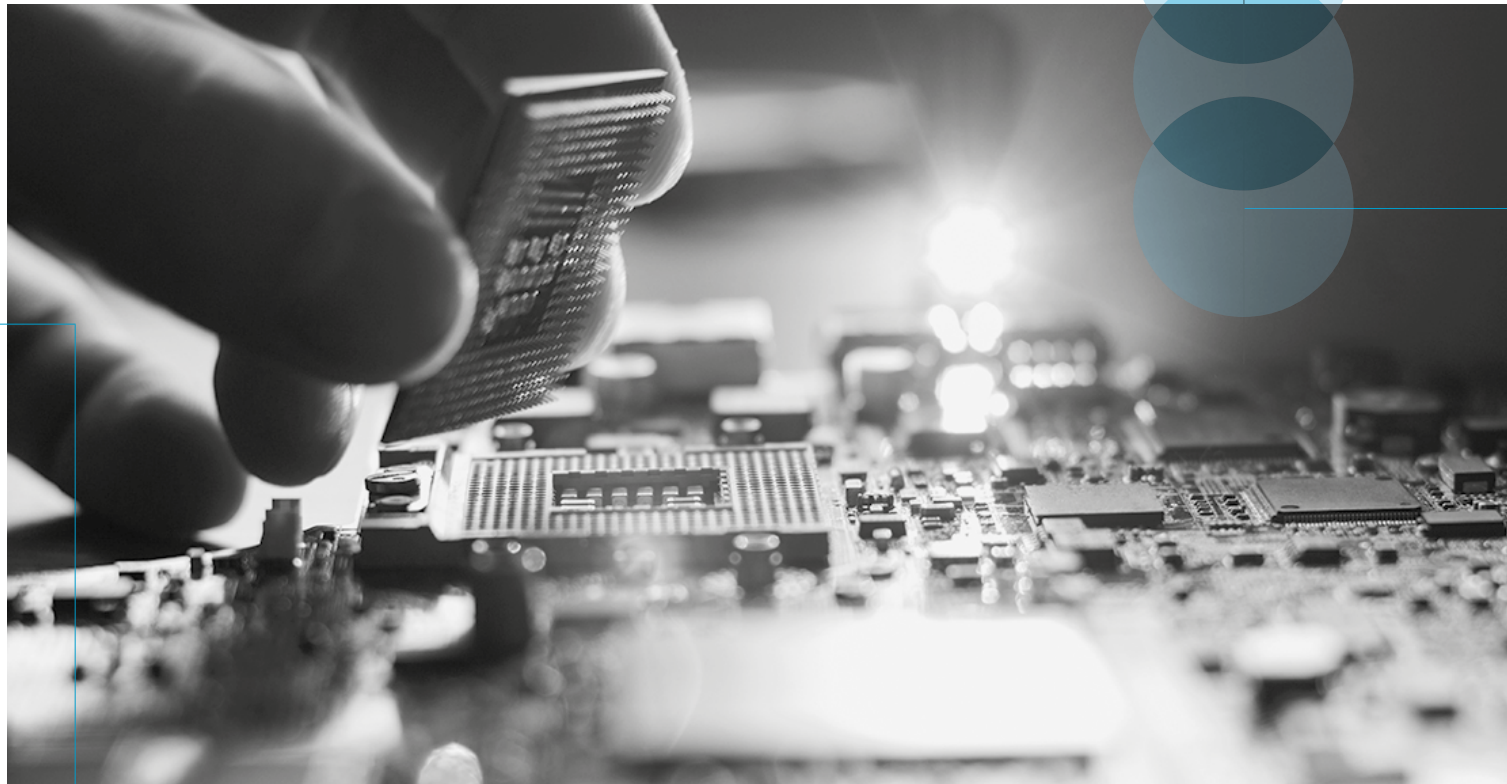


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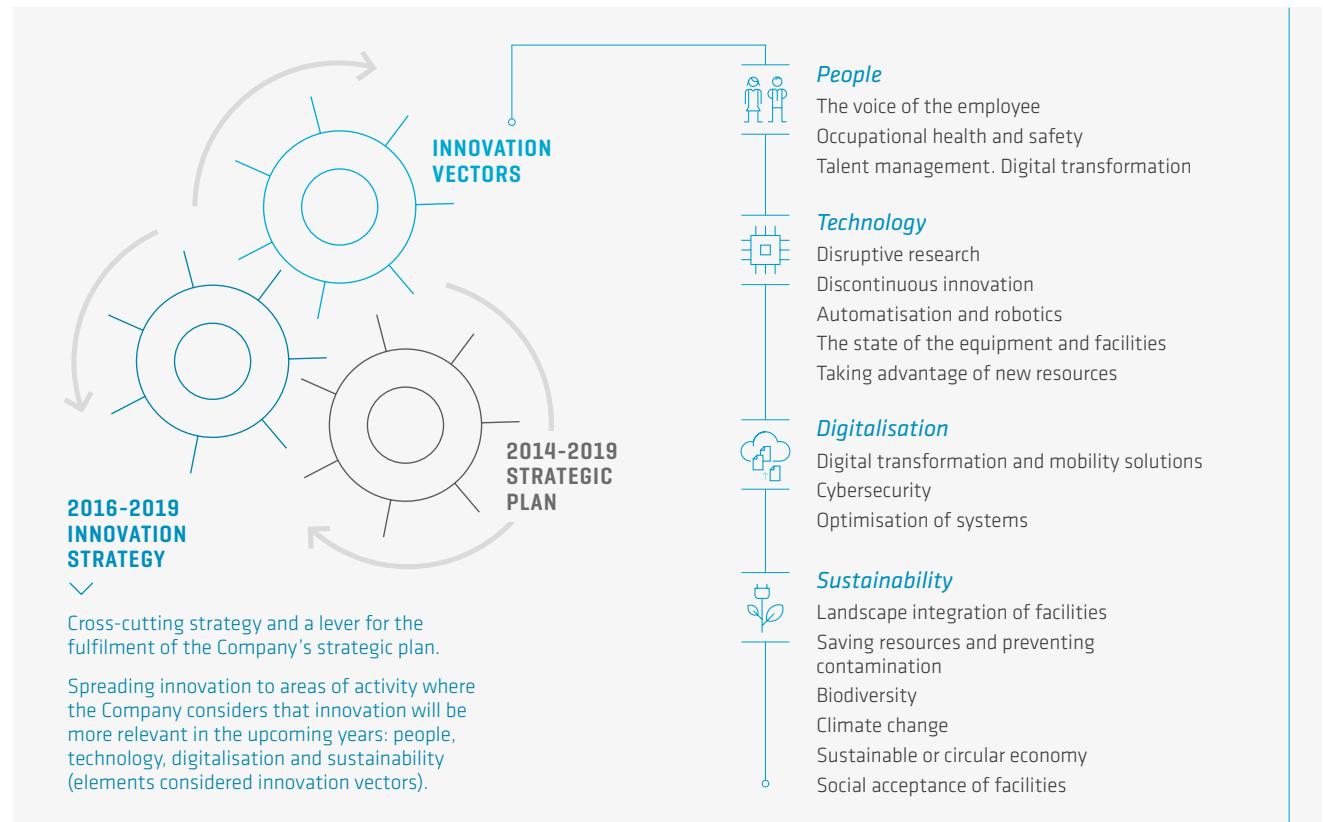


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Innovation / 103-1 / 103-2 / 103-3

Innovation in the Red Eléctrica Group consists of providing value, driving and promoting the incorporation of technologies, solutions and new ways of working as a lever of growth and efficiency that, in a structured way, promote a cultural change to take on the Group's future challenges, supporting its long-term sustainability and that of the electricity system as a whole.

Derived from the 2014-2019 Strategic Plan of the Red Eléctrica Group, the Company designed the current **2016-2019 Innovation Strategy**, with the aim of spreading the innovative culture to all areas of business activity, focusing on four vectors: digitalisation, people, technology and sustainability.





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INNOVATION VECTORS

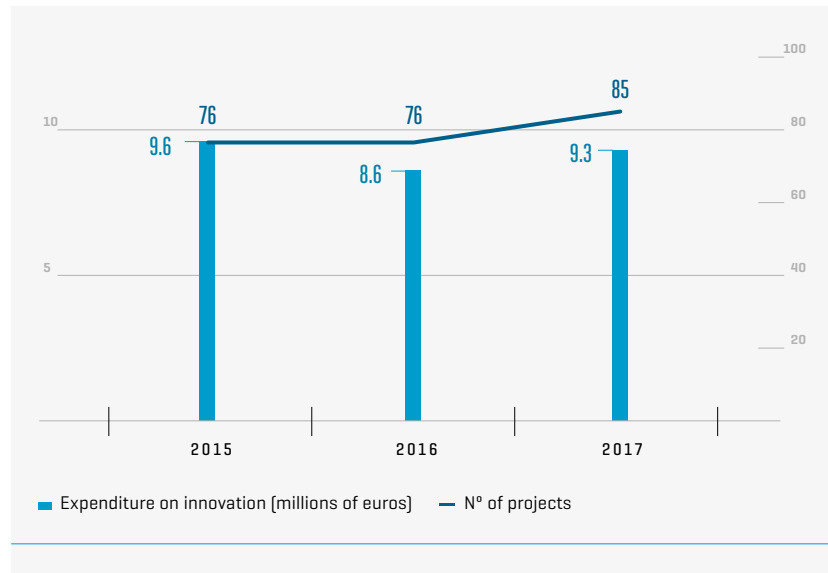
The **innovation vectors** bring together the areas in which the Company will especially boost innovation in the coming years. Therefore, the Company does not concentrate its efforts regarding innovation solely on these four vectors, but these are indeed the key areas where most of the effort is focused.

For the period 2016-2019, and for each vector, priority courses of action have been defined that should help guide innovation plans and programmes in the Red Eléctrica Group [detailed in the diagram on the previous page].

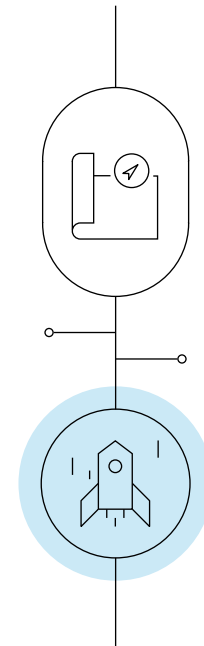
DEDICATION OF RESOURCES TO INNOVATION PROJECTS

The level of investment in innovation projects has been sustained in recent years, which clearly shows the Red Eléctrica

Investment in innovation 2017 Target: 9 million euros



Innovation PROJECTS



Expenditure on innovation 2017
9.3
M€

85 projects
underway during 2017

Group's commitment to a culture of innovation developed through its strategy. This fact not only requires an important financial investment, but also an important dedication of the Company's professional resources, as well as collaboration with researchers, universities and technological centres of the innovation ecosystem in which the Group is immersed. Below is the data for the last three years, in which the average investment in innovation projects stands at 9.17 million euros per year, and the average number of projects per year was almost 80.

GRID2030 INNOVATION PROGRAMME

The Red Eléctrica Group, as part of the development of its innovation strategy, is committed to supporting the development of disruptive innovation activities that anticipate the future of electricity systems and accelerate the development of technological solutions that could have a high impact on the TSO activity in a horizon of 10-12 years.



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in technologies and added value services, as well as to increase its resilience, face the challenges that the new energy model envisages and guarantee the competitiveness of the Company in the long term.

The **Grid2030** programme, a pioneering initiative in Spain, will generate R&D+i projects in the field of electricity transmission and operation.

EXAMPLES OF INNOVATION PROJECTS UNDERWAY

During 2017, the Red Eléctrica Group has had 85 innovation projects underway. Some of the most significant ones are described below.

In response to this commitment, the Grid2030 programme, a pioneering initiative in Spain, was launched at the end of 2017. Grid2030 is a multi-year collaboration that will allow, on the one hand, socio-economic and technical innovations to be explored related to the operation and transmission of electricity and, on the other hand, to support the development and early commercialisation of applications

based on cutting-edge technology, accelerating their deployment and progressive acceptance through the participation of companies and industries. By means of several open calls for proposals, the Company will collate proposals that could lead to Innovation and Development projects.

Through experiences such as GRID2030, the Red Eléctrica Group expects to increase its knowledge

Name	Project definition
BEST PATHS	European project to overcome the technical barriers that the current pan-European electricity grid may encounter when attempting to safely integrate massive amounts of energy from renewable sources.
MIGRATE	Project aimed at improving the understanding of the behaviour of the electricity system with a high penetration of devices based on power electronics.
VEGETA	Development of a new methodology to optimise the plan for managing the vegetation growing along the routes of the high-voltage electricity lines.
TRAFOSOSTENIBLE	Approval of the use of natural ester fluids as a refrigerant in standard power transformers.

More information on the corporate website: <http://www.ree.es/en/red21/rdi/grid2030-program>



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Red Eléctrica has established, as a management goal for 2017, the definition of a digital transformation strategy for the Group.

DIGITAL TRANSFORMATION

Digital transformation is a process of changing operations, business models and ways of working to add more value, facilitated by the rapid development of new digital technologies. It is also considered that it is the way to start up an organisation so that, when technological disruption arrives, the Company can better adapt to new business environments. For a company like Red Eléctrica, due to its neutral position and the fact it is the centrepiece of the system, this transformation represents an enormous opportunity.

This is why the definition of a **digital transformation strategy** for the Red Eléctrica Group has been set as a management objective for 2017, so that the aforementioned changes in the sector can be addressed. Digital transformation is a fundamental

element for the deployment of several of the key actions on which the 2014-2019 Strategic Plan is based, and it is expected to be one of the pillars in the Group's strategy for the coming years.

The **objectives** to be achieved through digital transformation in Red Eléctrica are the following:

- Improvement in operational efficiency.
- Development of new business models.
- Adaptation of the Group's human capital so it can be effective working in a digital company.

The **structure** of the digital transformation strategy includes three interrelated axes, divided, in turn, into ten programmes.



This will help to develop the skills of the workforce and their way of working, allowing the value of new opportunities in the market to be taken advantage of and therefore help the Company evolve towards a more agile organisation capable of adapting quickly to change.

As key elements of this transformation, two dimensions are established: **people** [knowledge, attitudes etc.] and **the working environment** [workspaces, policies, processes etc.]



This encompasses those key actions aimed at **creating value** through leveraged initiatives in **digital technologies and skills**. These initiatives, should they not be identified, strengthened and channelled properly, could jeopardise the future of the Company.

The key actions of the axis are classified based on three programmes: **efficiency, current business growth and new business**.



Technology is a key lever to promote the effective development of the other two axes:

- In **cultural change**, enabling the new ways of working, where mobility and collaboration will be essential requirements.
- In **efficiency and new business**, looking not only for traditional improvements aimed at the optimisation of processes and efficiency, but also exploring possibilities for generating value that new technologies offer.

In addition, the necessary conversion of data into information and knowledge is also analysed, which is key to a more efficient management of assets and a gateway for new business models.



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For the correct Kickoff of the digital transformation strategy in the Group, a management model has been proposed along with an action plan with initiatives in this field for their development in the coming years.

During 2017, more than 100 digital transformation initiatives have been identified which are currently underway in the Group, with the following being noteworthy for their contribution to the objectives of the digital transformation strategy:



DIGITAL TRANSFORMATION strategy



Entails a **MANAGEMENT MODEL AND ACTION PLAN**

- **During 2017, more than 100 digital transformation initiatives have been identified which are currently underway in the Group**

IMAGINA

The Project, in its change management and implementation phase, establishes a strategy based on **collaboration, innovation, leadership, openness and orientation to stakeholders, flexibility and agility**; defining specific initiatives that are materialised through the working groups, the project team and the ambassadors of change, Imagineers.

MANINT

Programme composed of four projects planned in the 2017-2019 horizon, which seeks to **optimise the management of transmission grid assets** through analysis and improvement of the associated corporate processes and the development and implementation of tools and functionalities of advanced data analysis using an agile methodology.

INTEGRA

Comprehensive planning initiative, which aims to obtain a **single planning of activities in the Transmission Division of the Company**, considering the non-availability of the transmission grid and on which an adequate planning of the supply of materials and services needs can be carried out.



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DECARBONISATION OF THE ECONOMY

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Decarbonisation of the economy

Energy transition and climate change

Reduction of the carbon footprint



Sustainable development of the transmission grid

Energy efficiency: demand-side management

Integration of renewables

Climate change is a global challenge that occupies a high priority on the international agenda. The objective is to limit the increase in temperature below the limit of two degrees centigrade, for which a transition towards a less carbon-intensive economic model is necessary.

In this regard, the Red Eléctrica Group takes on the following commitment as a sustainability priority:

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 energies, through a robust and better interconnected grid and the development and operation of energy storage systems.



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ENERGY TRANSITION AND CLIMATE CHANGE



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Energy transition and climate change

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The Paris Agreement, reached in December 2015 at the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change, was a historic milestone in the global fight against climate change. The main element was the commitment of the signatory parties to contain the increase in the Earth's temperature 'well below 2°C' with respect to the pre-industrial level, striving to limit it to 1.5°C, as well as reaching the neutrality of emissions between 2050 and 2100.

Already long before the Paris Agreement, the EU had shown its desire to make economic growth compatible with the reduction of greenhouse gases (GHG), in the medium and long term, and the

targets that have been set are proof of this.

To achieve these targets, a change in the energy model is essential and in this regard, the European Commission in November 2016 presented the '**Clean Energy for All Europeans**' package, whose proposals and measures aim to accelerate the transition to clean energy in line with the fulfilment of the targets established in the Paris Agreement, maintaining at the same time a secure and competitive energy system that allows the delivery of energy to the consumer at affordable prices, promoting growth and the creation of employment.

European energy targets

TARGETS 2020



20%
reduction of GHG emissions compared to 1990 levels

20%
of renewable energies in the EU

20%
improvement in energy efficiency

TARGETS 2030



40%
reduction of GHG emissions compared to 1990 levels

27%
of renewable energies in the EU

30%
improvement in energy efficiency

15%
Electricity inter-connection capacity

TARGETS 2050



85-90%
reduction of GHG emissions compared to 1990 levels





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COURSES OF ACTION

Red Eléctrica, as the transmission agent and operator of the Spanish electricity system, is a key player in the transition to the new energy model, whose key elements must be the electrification of the economy, the maximum integration of renewables in the energy mix and efficiency, while always guaranteeing security of supply.

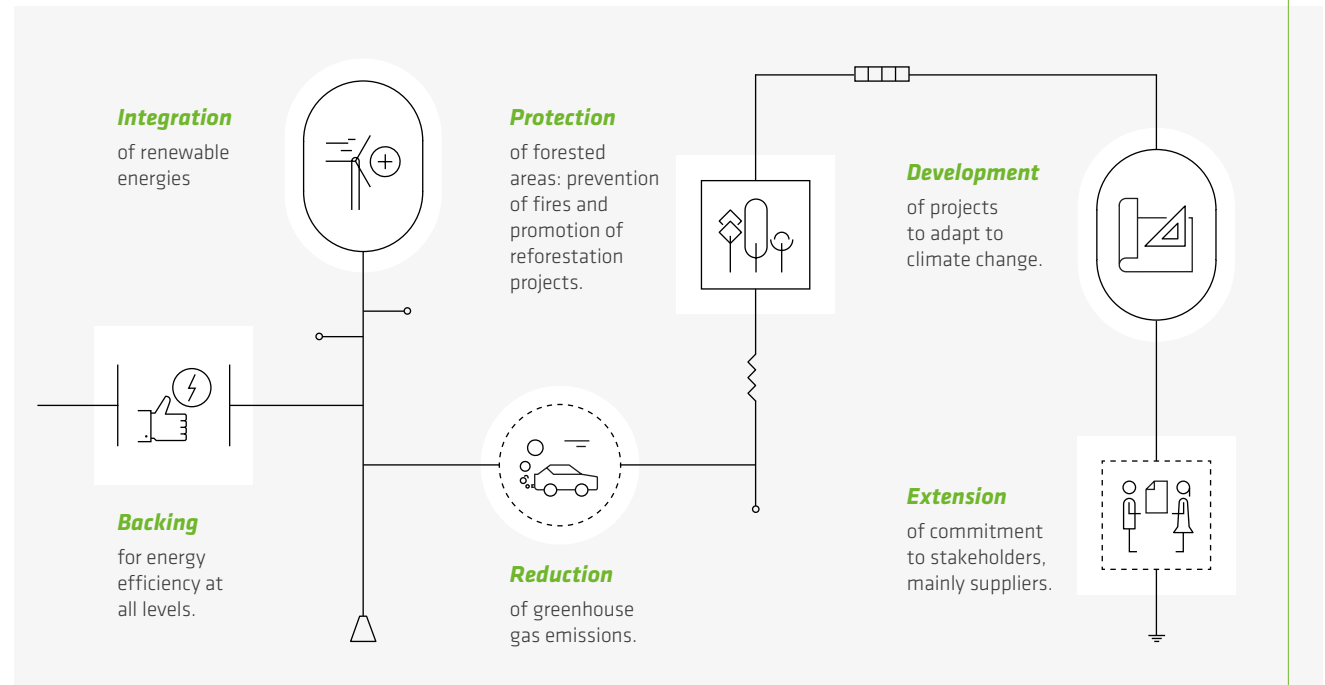
Aware of its important role and the need for companies to have a clear position on climate change, the Company has declared a voluntary commitment in the fight against **climate change**, reviewed and approved by the CEO.

RED ELÉCTRICA is a member of the **Spanish Green Growth Group**, an association that aims to promote public-private collaboration to jointly advance in the decarbonisation of the economy.

The commitment is set out in a **Climate Change Action Plan** (whose latest version was validated in 2017) that includes the targets to be achieved in the 2020 and 2030 horizons, as well as the main measures to be undertaken in order to achieve them.

Red Eléctrica has been included in the **CDP Leadership Index (A list)** for the **second year** running, in recognition of its effort and the actions undertaken to combat and tackle climate change.

CORNERSTONES OF THE CLIMATE CHANGE COMMITMENT



CLIMATE CHANGE ACTION PLAN: COURSES OF ACTION /103-2



Contribution to a sustainable energy model

Actions related to the activity of Red Eléctrica as transmission agent and electricity system operator:

Development of infrastructure to facilitate the electrification of the economy, connect new renewable generation and provide the power to feed the railway network.

Integration of renewable energy into the electricity system through the optimisation of system operation and the operation of the CECRE, the improvement of generation prediction tools, the participation in regulatory proposals and the integration of energy storage systems.

Contribute to a greater efficiency of the electricity system by improving knowledge of the electricity demand and the development of measures for its management.

Prepare the operation of the system for the efficient presence of the **electric vehicle**.

Develop measures and studies to **reduce transmission grid losses** and increase grid efficiency.



Reducing the carbon footprint

During 2017, the reduction targets were reviewed and redefined using the criteria of the Science Based Targets Initiative (SBTi):

2020: 10% reduction in total emissions of scope 1 and 2 per MWh transported compared to 2015.

2030: Reduction of 60% of the total emissions of scope 1 and 2 per MWh transported compared to 2015.

The actions focus on:

The improvement of the calculation of the carbon footprint.

The **reduction** of SF₆ gas emissions.

The **decrease** in emissions derived from electricity consumption.

The **improvement** of efficiency in mobility.

The **implication** of the supply chain.

The **offsetting** of emissions.



Positioning and disclosure

The main objective is the **dissemination of knowledge regarding the electricity system and demand-side management measures**, as well as the promotion of other **energy efficiency measures**.

Red Eléctrica participates as a global partner in the 'Community for Climate' initiative promoted by several social entities, the Ministry of Agriculture and Fisheries, Food and Environment, the Spanish Green Growth Group and several NGOs, whose objective is to promote actions for climate change within Spanish society.



Adaptation to climate change

In addition to working on mitigation actions, Red Eléctrica is aware of the need to work in the field of adaptation to climate change.

For this reason, the Company **has identified and assessed both risks and opportunities** derived from climate change and has begun to develop some actions arising from said analysis.



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SUSTAINABLE GRID DEVELOPMENT



Sustainable grid development

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ELECTRICITY INFRASTRUCTURE PLANNING / EU10

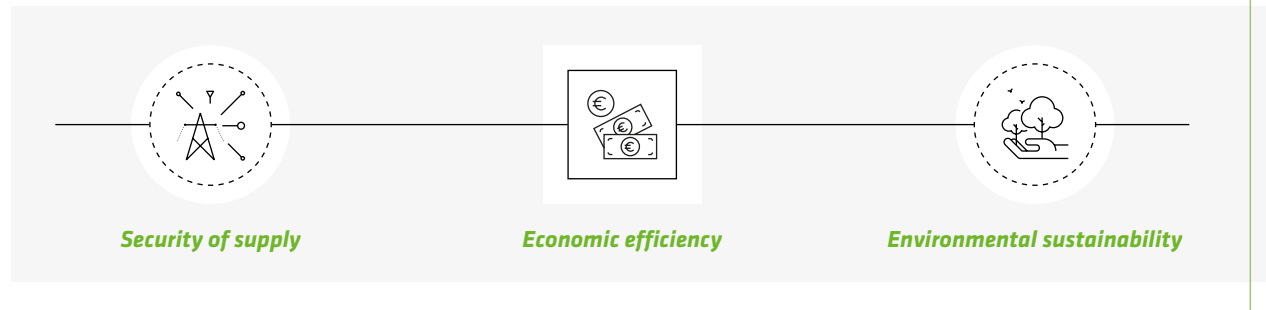
The current infrastructure planning, approved by the Council of Ministers in October 2015, covers a period of six years and is binding in nature for Red Eléctrica.

This planning includes the projects of new infrastructure of the transmission grid necessary to guarantee the electricity supply nationwide, considering the aspects of economic efficiency and sustainability of the electricity system. In addition, physical, technological and environmental viability have been taken into

account in the analyses carried out, prioritising those projects that allow a better use of the existing grid. As a new aspect, the planning also includes an annex, non-binding, for those facilities considered necessary with a post-2020 horizon, so that the administrative permitting processing can begin.

The 2015-2020 planning estimates a total investment of 4,554 million euros in the development of new electricity infrastructure.

CORNERSTONES OF THE 2015-2020 ELECTRICITY TRANSMISSION GRID PLANNING



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The actions through which the transmission grid is improved can be classified in two types: structural and connection. The actions related to each type are set out in the following table:

Actions for transmission grid improvement

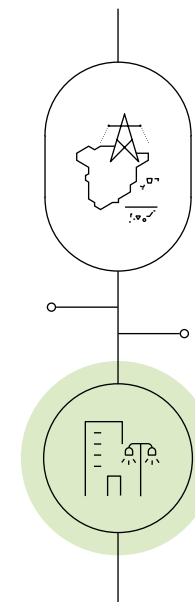
STRUCTURAL ACTIONS

- Resolution of technical constraints.
- Security of supply.
- Reliability
- International connections, interconnections between islands, and connections between the Spanish Peninsula and non-peninsular systems.

CONNECTION ACTIONS

- Development of the grid associated with the programme for the high-speed railway network.
- Support for the distribution and new demand of large consumers, mainly industrial.
- Evacuation of conventional and renewable generation.
- Connection of energy storage facilities.

Infrastructure PLANNING



OBJECTIVE:

to guarantee the electricity supply nationwide

Taking into account the economic efficiency and sustainability of the electricity system



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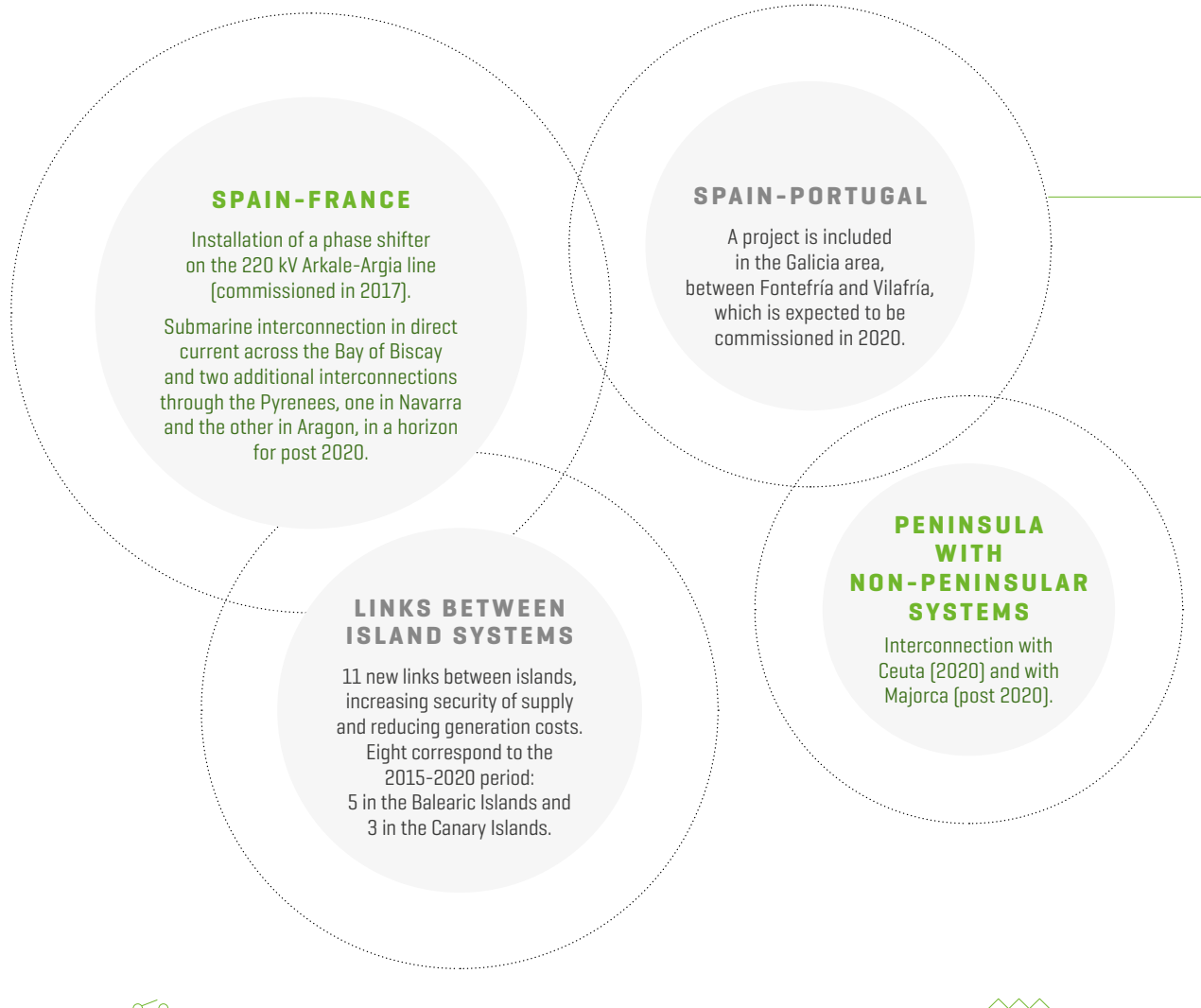
A fundamental aspect of this planning, due to its great influence on improving the **quality and security of the electricity system** and the

integration of renewable energy, is the development of **interconnections between electricity systems**: international interconnections,

links between island systems and connections between the Spanish Peninsula and the non-peninsular electricity systems.

On the other hand, this planning includes, in an indicative manner, both the forecast of electricity consumption in the 2015-2020 planning period and the **analysis of the demand coverage**. This analysis assesses if the anticipated generation allows the demand forecasted to be covered.

In order to ensure the ability to cover the peninsular demand forecast, a minimum coverage index of 1.1 is used (calculated as the quotient between the net power available in the system and the forecasted average hourly peak demand) as a figure that adequately guarantees the coverage of the demand of the system in an extreme situation, considering the main uncertainties such as the variability of renewable generation. Under these hypotheses, the planning does not foresee the need for additional power to cover the demand peaks in the 2015-2020 horizon.





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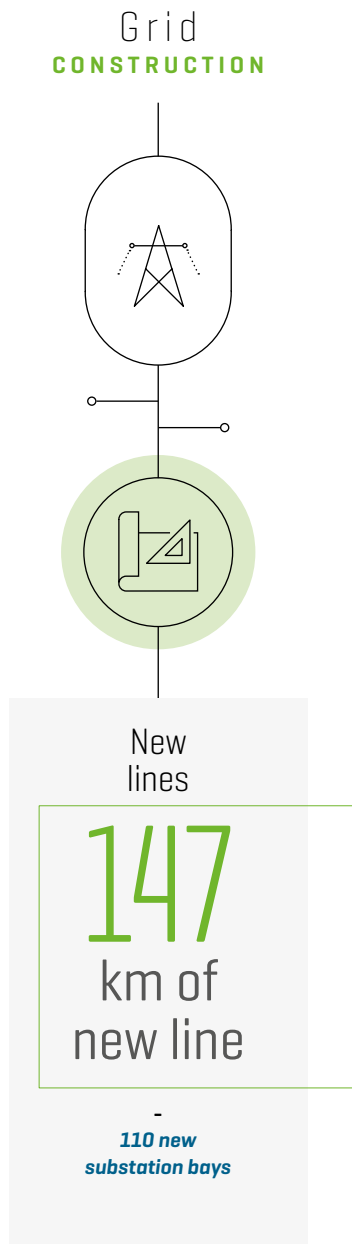
TRANSMISSION GRID CONSTRUCTION EU4

In 2017, investment in the transmission grid has basically been allocated to security of supply, the resolution of technical constraints, the development of interconnections between electricity systems and providing electricity to power the high-speed train.

Throughout 2017, 147 km of new line and 110 new substation bays were commissioned, and the transformer capacity was increased by 1,210 MVA, with an overall investment in the transmission grid of 411.8 million euros.

During 2017, the most significant actions carried out for the development of the transmission grid, by major axes, were the following:

- **Lanzarote-Fuerteventura axis:** this axis aims to carry out the necessary actions to build grid meshing on both islands, allow the evacuation of the energy generated and to strengthen the connection between the two islands. In 2017, the first facilities



belonging to this axis were commissioned, which along with the rest of the facilities, will be completed in the coming years.

- **Olmedo-Zamora axis:** this axis aims to provide the electricity to power the Madrid-Galicia high-speed train in the Olmedo-Orense section. The scope of this project consists of the construction of the Tábara and Arbillera substations and their associated incoming and outgoing feeder lines. The Tábara substation was commissioned at the end of 2017 and the Arbillera substation is scheduled for mid-2018.
- **Providing power to North Gerona:** this axis is related to the international interconnection with France. Part of it was commissioned in 2014, specifically the Santa Llogaia substation and the Bescanó-La Farga-Santa Llogaia line. The pending scope consists of the construction of the La Farga substation and its associated incoming and outgoing feeder lines and its commissioning forecasted by the end of 2018.
- **Venta de Baños-Burgos-Vitoria:** the facilities included in this axis are motivated by the need to provide electricity to power the Burgos-Vitoria high-speed rail axis. The scope of the project consists of the construction of the Buniel and Briviesca substations and their associated incoming and outgoing feeder lines. The Buniel substation was commissioned at the end of 2017 and the Briviesca substation is scheduled for 2023.
- **Campanario-Ayora-Cofrentes:** the purpose of this axis is to increase the meshing of the transmission grid between the communities of Castilla-La Mancha and Valencia, as well as to strengthen the electricity supply needed to power the Madrid-Levante high-speed train. Part of the axis, which includes the Peñarrubia, Pinilla and Ayora substations, and the Pinilla-Campanario line, was commissioned between 2012-2015. The rest of the actions, which consist of the enlargement of the Cofrentes substation and the Campanario - Ayora line, were commissioned in mid-2017, and the Ayora-Cofrentes line, together with its associated incoming and outgoing feeder lines, is scheduled to be commissioned for 2022.



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Additionally, in relation to the interconnection with France, the following actions have been carried out:

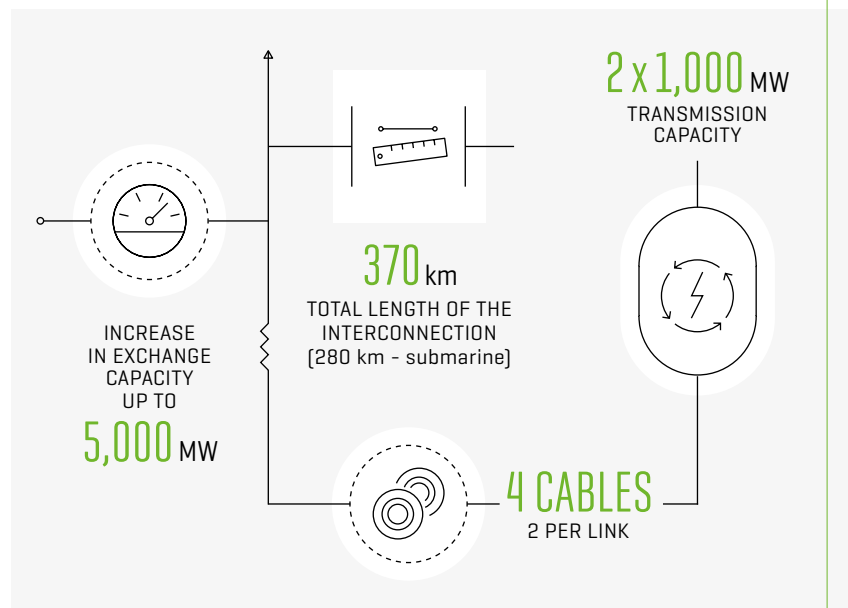
- **Arkale phase shifter:** This project, which aims to increase security of supply and strengthen international electricity exchanges, was commissioned in mid-2017.

- **Interconnection with France across the Bay of Biscay:** The purpose of this new interconnection with France (which is currently in the public information and consultation period) responds to the need to continue increasing the interconnection capacity with Europe, in order to achieve the European energy targets that allow access to a clean, competitive and

safe energy for all citizens. The project consists of a submarine double link in direct current which is 370 km in length, of which 280 km are submarine, and which has a power capacity of 2,000 MW.

With this project, whose commissioning is scheduled for 2024, the electricity exchange capacity with the European electricity system will be raised to 5,000 MW.

INTERCONNECTION WITH FRANCE ACROSS THE BAY OF BISCAY / KEY DATA



Peninsular and non-peninsular transmission grid

	2015	2016	2017 ⁽¹⁾
km of 400 kV line	21,184	21,619	21,728
km of 220 kV line	19,386	19,479	19,507
km of 150-132-110 kV line	398	523	523
km of <110 kV line	2,022	2,025	2,034
Total km of line	42,989	43,646	43,793
400 kV Substation bays	1,441	1,458	1,484
220 kV Substation bays	3,124	3,152	3,180
150-132-110 kV Substation bays	84	84	110
<110 kV Substation bays	779	797	827
Total substation bays	5,428	5,491	5,601
Transformer capacity [MVA]	84,544	85,444	86,654

⁽¹⁾ Provisional data pending audit - in progress. Cumulative data as at 31 December of each year.

Kilometres of line

Data as at 31 December 2017 ⁽¹⁾

	Peninsula	Balearic Islands	Canary Islands	Total
Overhead lines [km]	39,870	1,061	1,080	42,011
Submarine cable [km]	265	540	30	835
Underground cable [km]	523	179	245	947
Total	40,657	1,780	1,355	43,793

⁽¹⁾ Provisional data pending audit - in progress.



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TRANSMISSION GRID MAINTENANCE

Red Eléctrica's mission is to guarantee that the facilities of the transmission grid are always in optimum condition, in terms of availability and reliability, through the application of sustainable, efficient and safe maintenance policies.

To do this, a maintenance programme is established annually, which includes all the activities and resources necessary to guarantee the continuity of the electricity supply.



Among the activities carried out in 2017, it is worth highlighting the use of remote controlled drones for the inspection of lines, the design of special solutions for corrosion protection of the towers in critical areas and the development of a comprehensive monitoring system (SIMON - Intelligent Monitoring System) with the objective of integrating monitoring, data processing and real-time visualisation of the status and condition of substation equipment, allowing for the timely detection of potential breakdowns/faults.

SERVICE QUALITY EU28 / EU29 / 103-1 / 103-2 / 103-3

The service quality indicators highlight for yet another year the high level of security and quality of supply provided by Red Eléctrica's facilities, being well within the benchmark established in the current legislation.

Quality of service indicators

	2015	2016	2017 ⁽¹⁾
PENINSULAR TRANSMISSION GRID			
Grid availability [%]	97.92	98.31	98.28
Energy Not Supplied [ENS] [MWh]	53	67	63
Average Interruption Time [AIT] (minutes)	0.112	0.141	0.131
BALEARIC ISLANDS TRANSMISSION GRID			
Grid availability [%]	96.86	96.93	97.84
Energy Not Supplied [ENS] [MWh]	29	0	33
Average Interruption Time [AIT] (minutes)	2.662	0.027	2.881
CANARY ISLANDS TRANSMISSION GRID			
Grid availability [%]	96.74	98.06	98.12
Energy Not Supplied [ENS] [MWh]	150	457	47
Average Interruption Time [AIT] (minutes)	9.078	27.447	2.751

⁽¹⁾ The values for 2017 are pending external audit. The continuity of supply indicator includes the valuation of the impact of incidents that are subject to administrative proceedings currently underway.



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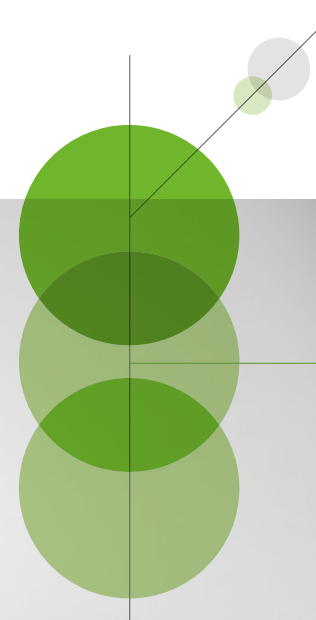


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INTEGRATION OF RENEWABLES





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Integration of renewables /103-1 /103-2 /103-3

The core mission of the operation of the electricity system is **to guarantee the security and quality of the electricity supply, maximising the integration of renewable energy**, with the aim of contributing to the provision of a safe, efficient and sustainable electricity supply to citizens.

INTEGRATION OF RENEWABLE ENERGY

Peninsular electricity system

During 2017, in the peninsular electricity system, the production of energy from renewable sources represented 33.8% with respect to the total energy production generated. In line with previous

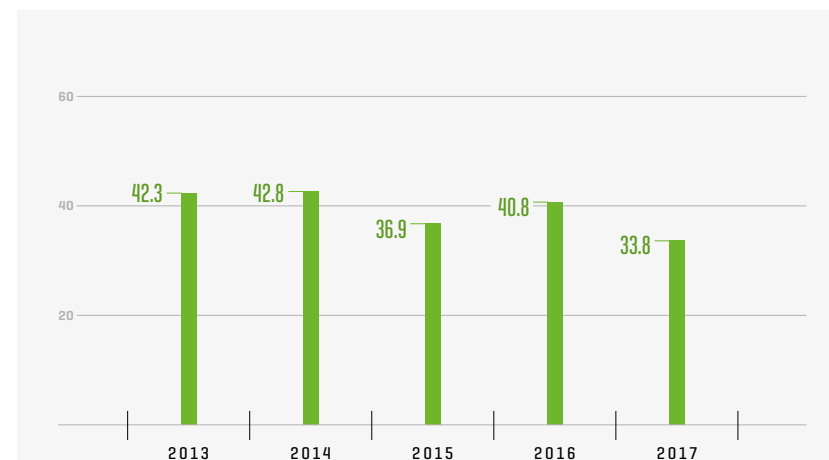
years, it is worth noting the important contribution of wind generation, whose contribution to total energy production has reached 19.3%, this ranks wind in second place, behind nuclear energy. Similarly, in the months of February and December, wind generation was the technology with the greatest contribution to the total energy production of the peninsular electricity system, reaching around 25% in both months.

To make the operation of the electricity system possible, under safe conditions, with such a high penetration of renewable energy,

the control and supervision work carried out from the Control Centre of Renewable Energies [CECRE] is key.

Renewable energy generation on the peninsula [1]

%



[1] Includes hydro, wind, solar photovoltaic, solar thermal, other renewable and 50% of urban solid waste. Does not include pumped-storage generation.



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The main mission of Red Eléctrica as operator of the electricity system is to guarantee the security and quality of the electricity supply, maximising the integration of renewable energy.

Balearic Islands electricity system

The energy transferred from the Spanish Peninsula covered 19.6% of the Balearic Islands demand, reaching peaks that exceeded 35% of hourly consumption, which has meant a saving of 29% in the coverage costs of the Balearic Islands system and has avoided the emission into the atmosphere of approximately 350,000 tonnes of CO₂ eq. in the territory of the Balearic Islands.

Canary Islands electricity system

In Gran Canaria, security of supply has been improved with the actions carried out in

the first quarter of 2017 in the north of the island, following the commissioning of the Sabinal substation at the end of 2016, as well as with the commissioning of the Santa Águeda substation and the reconfiguration of the grid, in the second half of the year, in the south zone of the island.

The generation of renewable origin has represented 7.9% of the total generation, reaching levels of 34% in Gran Canaria and 35% in La Palma, particularly challenging values in small isolated electricity systems.



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The purpose of energy storage projects is to improve the guarantee of supply, the security of the system and the integration of renewable energy.

Similarly, the Gorona del Viento hydro-wind power station has been operating on a regular basis throughout 2017, increasing the integration of renewable energy into the El Hierro electricity system. In this regard, in the month of July, the monthly renewable integration into this system reached almost 80%, achieving 46.5% for the whole year.

ENERGY STORAGE PROJECTS

In order to improve the guarantee of supply, the security of the system and the integration of renewable energy, Red Eléctrica is developing several projects aimed

at energy storage conceived as operating tools to optimise the efficiency of electricity systems.

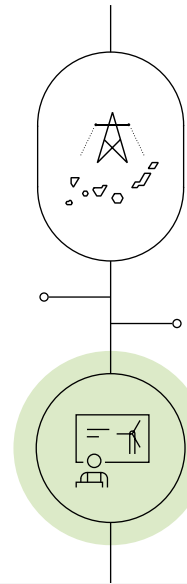
Soria-Chira pumped-storage hydroelectric power station (Gran Canaria)

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

SORIA-CHIRA POWER STATION

This pumped-storage hydroelectric power station will have a turbine power capacity of 200 MW and a pumping capacity of 220 MW.

EL HIERRO ELECTRICITY system



In 2017, the integration of renewables reached

46.5
%

-
Thanks to the correct functioning of the Gorona del Viento hydro-wind power station

In addition, this facility will be a key element to reduce the vulnerability of electrically isolated and small systems, such as that of the island of Gran Canaria, when faced with high-levels of demand or when faced with situations where there is a lack of generation.

Almacena project

The Almacena project consists of the field installation and subsequent operation of an energy storage system, specifically a prismatic lithium-ion battery with a power output of 1 MW and a storage capacity of at least 3 MWh, which has the objective of evaluating the technical capabilities and characteristics that this type of facility currently presents as a tool that seeks to improve the efficiency of electricity system operation.

In 2014, the energy storage system was installed in Carmona (Seville) and during this period it has been going through a testing phase of its functionalities aimed at facilitating the integration of renewables and the improvement of the operation services.



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ENERGY EFFICIENCY: DEMAND-SIDE MANAGEMENT





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Energy efficiency: demand-side management / 103-1 / 103-2 / 103-3

Red Eléctrica continues to actively work on the promotion, development and dissemination of initiatives that allow the current electricity grid to evolve towards a more intelligent network characterised by greater flexibility of demand and by the integration into the electricity system of elements of the new model energy such as the electric vehicle, energy storage or self-consumption.

MAIN ACTIONS Initiatives in the field of Smart Grids

Faced with the challenge of maintaining security of supply in a decarbonised electricity system, Red Eléctrica is promoting Smart Grid initiatives in order to anticipate solutions in the field of new energy storage technologies, the dynamic capabilities of the grid, the monitoring of grid elements, self-consumption, the electric vehicle and the new options for the consumers, that are already shaping the electricity grid of the future.

In 2017, five projects have obtained specific results that are already being used in the operation of the current system:

INCORPORATION OF PHASE MEASUREMENT IN THE OPERATION SYSTEMS. Improvement in the decision-making processes of the operators thanks to the integration of the information coming from the phase measurement units deployed in the electricity system.

SYSTEM FOR THE DETECTION OF FAULTS IN CABLES IN MIXED LINES. Development of a system based on optical sensors and advanced protection equipment that is capable of accurately detecting faults in sections of underground cable in mixed lines.

INCREASING THE MONITORING OF TEMPERATURE in underground cable II. Temperature monitoring in already existing insulated cable installations.

CECOVEL. Development of the Electric Vehicle Control Centre.

NEW DEMAND FORECASTER (Balearic Islands). Development of new tools to improve the electricity demand forecast for various horizons, from one hour to a week.

SINCE 2015

Work has been carried out on 23 projects, of which 10 have resulted in new processes or tools that are already incorporated into the operation of the system.





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Future participation of the demand in the balancing services

Another challenge that Red Eléctrica is already addressing is the participation of the demand in the balancing services, as a consequence of the European harmonisation process regarding ancillary services.

During 2017, Red Eléctrica held a **Seminar to exchange international experiences on the aggregation of demand and**

Noteworthy is the participation of Red Eléctrica in an **ENTSO-E Working Group** dedicated to demand-side response.

its participation in balancing services in which the key players in the electricity sector (more than 40 organisations) were able to discover first-hand how this challenge is being addressed in other countries around us (France, Belgium, Holland and Germany).

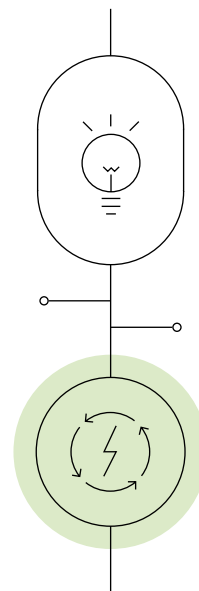
Active citizen

The electricity system finds itself in a transition towards a new, more dynamic energy model where the role of citizens as key protagonists in system operation is becoming increasingly prominent. Therefore, Red Eléctrica promotes demand-side management initiatives as well as making information about the situation of the system available to citizens, or to disseminate recommendations on best practices for efficient consumption.

NOTEWORTHY IS THE PARTICIPATION

of Red Eléctrica in the European Technology and Innovation Platform Smart Networks for Energy Transition (ETIP SNET).

Interruptible DEMAND



Awarding of **2,600** MW of interruptible resource

Managed by Red Eléctrica as auction administrator

Interruptibility service

This service is an industrial demand-side management tool provided by large consumers that provides a fast and efficient response to the needs of the electricity system. In this regard, the industrial consumers who provide this service reduce, at the request of the system operator, their consumption down to certain predetermined values.

Order IET/2013/2013 of 31 October 2013, introduced a new allocation mechanism for the demand-side management interruptibility service based on a competitive auction procedure. For the period **between 1 January 2018 and 31 May 2018**, Red Eléctrica, in its capacity as auction administrator, has managed the holding of auctions in which the large industry of the country has competed for the allocation of the interruptible resource and that have resulted in the **awarding of 2,600 MW of interruptible resource**.



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The PERFILA project analyses the hourly information coming from a panel of consumers that already have smart meters.

Profiling Service

Due to the fact that in the electricity market all energy is settled on an hourly basis, it is necessary to make an estimate of the hourly behaviour of those consumers that do not have smart meters installed. Said forecast is carried out through the so-called 'consumption profiles', which Red Eléctrica drafts and which assign to each consumer a typical demand behaviour according to their contracted power and the voltage levels (access tariffs).

With the aim of improving the current profiling service, since 2013 Red Eléctrica has led the **PERFILA project**, which has the participation of the most important distribution companies, and which is based on the analysis of the hourly information coming from a panel of consumers that already have smart meters.

The information that has been collected since January 2014 from

approximately 25,000 members of the panel has been used in the proposals of initial profiles prepared by Red Eléctrica for 2015, 2016 and 2017. In 2017, in which the profile proposal for 2018 has been defined, in addition to the information of the Perfila Project panel, information from power measurements, received by telematic means by SIMEL (Power Measurement System) has been incorporated for the first time.

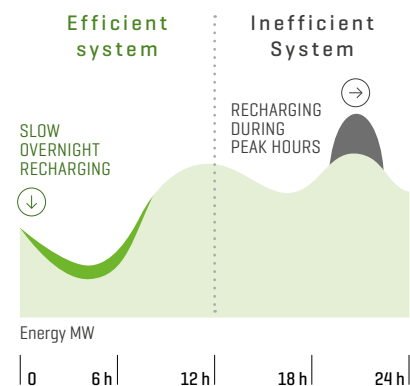
Electric vehicle

Electric mobility represents an opportunity to improve the efficiency of the energy system as a whole, as it allows the incorporation of electricity as an energy vector of the transport sector.

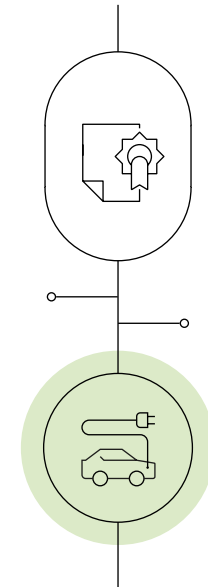
The **CECOVEL project** (Electric Vehicle Control Centre) is an initiative of Red Eléctrica to support electric mobility in the current scenario of energy transition.

Operational since January 2017, CECOVEL allows us to track the electricity demand for the recharging of electric vehicles, making these new electricity consumers visible. It is a collaborative project with the participation of the main recharging managers in Spain. In addition, it currently monitors the measurements of more than 900 recharging points.

Recharging schedule of the electric vehicle



CECOVEL PROJECT



Has received recognition from **enerTIC AWARDS** in the Smart Vehicle category

Operational since 2017, has the participation of the main recharging managers in Spain



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REDUCTION OF THE CARBON FOOTPRINT



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Reduction of the carbon footprint / 103-1 / 103-2 / 103-3

The Company has decided to adopt a firm commitment to reduce the carbon footprint despite not being subject to any regulations that require it to disclose or reduce (or offset) the emissions associated with its activities.

During 2017, a revision of the existing reduction targets was carried out in order to align them with the commitment made in Paris by the governments to limit the increase in temperature to 2 degrees. The general objectives have been redefined using the criteria of the Science Based Targets initiative (SBTi), an organisation with which

we will continue working during the next year to adjust and formalise the objectives. It should be noted that objectives have been defined for two horizons, a short term (2020 horizon) and a medium term (2030 horizon), as set out at the beginning of this chapter.

On this and the following pages, the new objectives defined are described, as well as the main actions carried out to achieve them.

CALCULATING THE CARBON FOOTPRINT

Red Eléctrica prepares its emissions inventory based on the GHG Protocol methodology. This inventory is subject, since 2013,

to independent review in accordance with ISAE 3410. The Independent Assurance Report is included in the annex to this report.

Red Eléctrica works constantly to improve the calculation of emissions associated with its activities. Thus, since 2015, **the methodology for calculating the carbon footprint associated with the life cycle of the various electricity facilities is being developed**, having already been completed for the overhead lines and cables. The designed tool allows the footprint of the mentioned facilities to be calculated based on the project data and subsequently adjusted with the data collected during its construction.



SINCE 2015

Red Eléctrica has registered its emissions inventory in the Carbon Footprint Registry, offsetting and absorption projects of the Spanish Office of Climate Change (OECC - MAPAMA).



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In addition, during 2017 the **review and adjustment of the methodology for the calculation of indirect emissions [scope 3] was carried out**, reviewing the application of each of the categories indicated in the GHG Protocol guide for the calculation of emissions associated with the value chain and defining the criteria for its calculation.

Climate change action plan objective

Target 2016 -
2020: total
SF₆ emissions
≤ 210,000 tCO₂eq.
Progress 2017:
Total emissions
54,994 tCO₂eq.
[2016 - 2017].

CONTROL OF SF₆ EMISSIONS

The main direct emissions derived from the activities of Red Eléctrica are those of sulfur hexafluoride (SF₆). This gas, despite its high global warming potential, has enormous technical advantages. It is a non-toxic gas that allows a high reduction of the distances to be respected between different elements of the facilities, which

makes it possible to reduce the size of the facilities and, therefore, their better integration into the environment.

SF₆ emissions are associated with small leaks in the equipment, leaks during gas handling and accidents that may eventually occur, which makes it very difficult to establish reduction measures and targets.

However, for Red Eléctrica it is a priority issue and it has different lines of work in progress aimed at gaining a better knowledge and control of the gas and the reduction of leaks. The most important are the following:





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Climate change action plan objective

OBJECTIVE 2015 - 2020

Exceed 2,300 tCO₂eq. per year in the category of emissions avoided. **[1]**

PROGRESS 2017

302 tCO₂eq. per year avoided thanks to the actions of 2017.
1,655 tCO₂eq. per year avoided in the period 2015-2017.

[1] The calculation of emissions avoided is carried out taking into account the theoretical leakage rates of the equipment, depending on its age.

Additionally, Red Eléctrica continues working in collaboration with the public administration and other entities in the search for solutions aimed at controlling and reducing these emissions within the framework of the Voluntary Agreement signed in May 2015 between the Ministry of Agriculture,

Food and Environment, the manufacturers and suppliers of electrical equipment that use SF₆, the electricity transmission and distribution companies and the waste managers of this gas and the equipment that contains it, for a comprehensive management of the use of SF₆ in the electricity industry that is more environmentally friendly.

Evolution of SF₆ installed gas in Red Eléctrica kg

2017	434,566
2016	421,666
2015	373,806

Note: The growth in installed gas in 2017 is due mainly to the commissioning of new facilities and the replacement of old equipment for equipment insulated with SF₆. However, it is also associated with the updating of the inventory of SF₆ gas-insulated substations, which has made it possible to determine the amount of gas contained in them [until 2015 this was estimated].

SF₆ Emission rate [% of emissions over installed gas] %

2017	0.26
2016	0.30
2015	0.37

The reference rate is 0.5%, which is the maximum leakage rate for equipment in service established in the Voluntary Agreement for SF₆ management signed in 2015. This rate is set for the equipment commissioned from the date the agreement was signed, therefore allowing for greater leakage rates in previous equipment.



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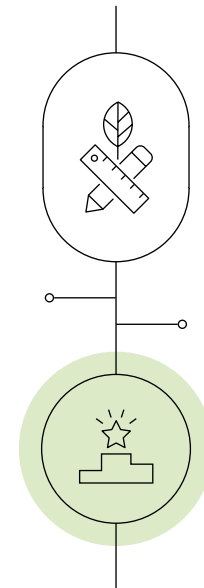
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EFFICIENCY IN ELECTRICITY CONSUMPTION

One of the pillars of the Company's climate change strategy is the commitment to energy efficiency at all levels. In order to make it visible, and to encourage employees to identify and drive projects that promote the efficient use of natural resources, the internal efficiency brand Red Eléctrica Eficiente has been created, which identifies all these projects. Each year some of them are awarded for their contribution to the achievement of the different efficiency targets, through the Red Eléctrica Eficiente Awards.



Red Eléctrica EFICIENTE



Recognition granted to projects that promote the **EFFICIENT USE** of natural resources

In 2017, it celebrated its fifth edition

Noteworthy projects of the 5th Edition of the Red Eléctrica Eficiente Awards

ELECTRIC VEHICLE CONTROL CENTRE (CECOVEL)

Solution to manage the electricity demand that the massive implementation of this type of vehicle would represent, adapting the electricity system to the recharging habits of the citizens and reducing the impact on the system.

RECICL-ART

Traditional Christmas party that Red Eléctrica celebrates for the children

of employees, whose central theme has been recycling, with the objective of transmitting to youngsters the importance of the 3R Model [Reduce, Reuse, Recycle].

STUDY FOR THE USE OF GEOTHERMAL VENTILATION FOR GAS-INSULATED FACILITIES AND CABLE GALLERIES

Improvement of the cooling system of indoor facilities of Red Eléctrica by harnessing the geothermal energy from the ground.

BEST INNOVATIVE IDEA

Pisa con Energía!: Consists of the recovery of energy from footsteps in busy thoroughfares, which can then be stored in batteries and supplied for lighting the Company's offices.



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On the other hand, the following energy efficiency measures have been carried out, with special attention to the implementation of energy efficiency measures in existing buildings. The implementation of these measures has been considered as a priority objective for the Company [managerial] in 2017, having achieved a fulfilment of 100%.

Of the HVAC measures implemented during the 2017, noteworthy are the climate control systems based on the use of geothermal energy that have been commissioned in two buildings: San Sebastián de los Reyes work centre and the Tres Cantos Campus. These systems will significantly reduce the consumption of electricity.

The implementation of energy efficiency measures in existing buildings has been considered a priority objective in 2017, having achieved a fulfilment of 100%.

Energy efficiency measures implemented by Red Eléctrica

BUILDINGS

Head offices

Energy management system certified under ISO 50001.

New buildings

In 2017, the renovation of the building for the Tres Cantos Campus (ECRE) was completed. One of the main objectives was to get as close as possible to the levels of almost zero consumption in buildings. The consumption will be up to five times less than that of a conventional building of the same characteristics.

Existing buildings

Improvements in HVAC, lighting and insulation systems in 9 work centres, which will mean an estimated saving of 172,085 kWh per year.

IT SYSTEMS

Renewal of equipment and systems

The renewal of equipment in 2017 [laptops, desktop computers and monitors] implies an estimated reduction in electricity consumption of 51,966 kWh per year.

Application of efficient use policies

More than 90% of the equipment has measures such as automatic screen shutdown or sleep mode. This represents an approximate saving of 20% in the energy consumption of the equipment.

SUBSTATIONS

Selection of equipment and components and the establishment of guidelines for their efficient use

During 2017, a pilot project was carried out to replace the lighting of a substation with LED technology. The result of this measure has led to average consumption that is nine times lower when the lights are in use.

Rationalisation in the use of lighting

Thanks to the improvements implemented in the remote lighting control systems, the total or partial shutdown of the night lighting in 37 substations has been carried out which represents an estimated saving of 985,500 kWh per year.

AWARENESS

Awareness campaigns

Awareness campaigns for employees and collaborators who work at the Company's facilities.



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Red Eléctrica has introduced HVAC systems based on the use of geothermal energy and has an R&D+i project in place to evaluate the operation of a cooling system using geothermal ventilation.



Work is also being done on maximising the use of ground energy in the case of some electricity facilities, such as gas-insulated substations and cable galleries. In 2016, a R&D+i project was initiated with this objective

in mind; and in 2017, a cooling system using geothermal ventilation was installed in the 220 kV Fuencarral gas-insulated substation and the necessary data is being collated to be able to assess its performance.

Reduction targets

TARGET

Reduction of emissions associated with electricity consumption: 85% in 2020 and 90% in 2030.

Reduction of electricity consumption in work centres: 3% in 2020 and 10% in 2030.

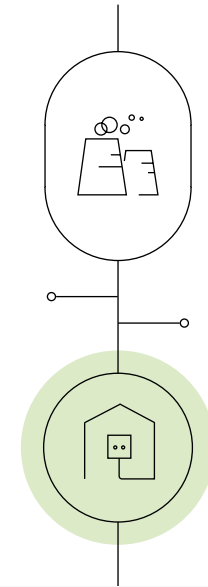
PROGRESS 2017

Reduction of 82.6% of the emissions associated with energy consumption in 2017 vs. 2015.

Reduction of 6.6% of electricity consumption in work centres in 2017 vs. 2015.

Note: The targets are set using 2015 as the base year.

Progress
MADE REGARDING
THE TARGETS



82.6
%

Reduction in emissions associated to energy consumption



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SUSTAINABLE MOBILITY

For several years, Red Eléctrica has been working on optimising work-related travel and reducing the emissions associated with it.

In 2014, it has a Sustainable Mobility Plan, with the goal of incorporating a new culture of mobility within the Company.



Efficient management of fleet vehicles

Progressive improvement of the energy rating of the vehicles used and the optimisation of their use through the application of CARs (Agile, Responsible and Safe Driving System). In addition, the Company has joined the 'Sustainable Professional Mobility' Project promoted by the CONAMA Foundation, which includes various actions such as training in efficient driving.

Since 2015, Red Eléctrica has maintained the 'Green Fleet' accreditation in its 'Master' modality (the most demanding one) of AEGFA (Association of Fleet Managers) and IDAE (Institute for Energy Diversification and Saving).



Reduction of emissions associated with business trips

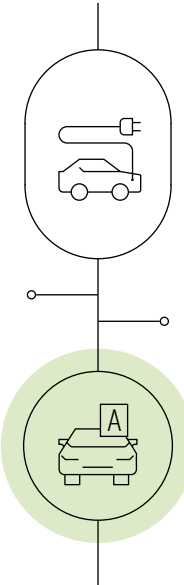
Launch of a corporate fleet of 12 electric vehicles for trips during the working day; prioritisation of the use of efficient taxis and improvements in communication tools, in order to reduce the number of trips (video conferences and remote accessibility platforms).



Rationalisation of the use of private vehicles in the commute to workplaces

Improvements in the Company bus service and shuttle services connecting the offices with different locations; redesigning routes and lengthening hours so as to provide a better service; inclusion of the transport pass in the employee options for benefits in kind (19% of employees have benefited from this measure, 3% more than in 2016) and the promotion of car-sharing (8% of employees are using this measure on a regular basis compared to 6% in 2016).

Vehicle FLEET



73 %

of Red Eléctrica's fleet have an energy rating of A or are electric vehicles

- compared to 68% in 2016



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Additionally, Red Eléctrica participates in initiatives promoted by external organisations regarding the promotion of sustainable mobility. Thus, in 2017, it took part in:

- the Advisory board of the sustainable mobility observatory [Club de Excelencia de Sostenibilidad].
- the European Mobility Week, in which it has registered two initiatives: the Sustainable Mobility Plan and the CECOVEL project.

Climate change action plan objective

OBJECTIVE

Reduction of emissions associated with the use of Red Eléctrica vehicles: 15% in 2020 and 30% in 2030 vs. 2015.

PROGRESS 2017: 27%.

OBJECTIVE

Reduction of emissions associated with business trips made in vehicles: 20% in 2020 and 40% in 2030 vs. 2015.

PROGRESS 2017: 42%.



Red Eléctrica has received recognition for its involvement in the promotion of sustainable mobility, issued by the Sub-Directorate of Air Quality and Environment of the Ministry of Agriculture and Fisheries, Food and Environment.



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In 2017, work was completed on planting the Firgas forest (Gran Canaria), which is estimated to offset 1,288 t of CO₂, equivalent to 4.5 % of the direct emissions in the same year.

OFFSETTING OF EMISSIONS

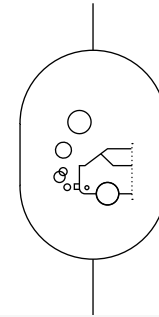
Red Eléctrica has put into effect different alternatives for the reduction of its emissions. However, given the nature of the emissions (the main direct emissions are unclear) and the characteristics of the Company's activities, in order to achieve greater progress in reducing the Company's carbon footprint, it is important to work on actions to offset emissions. The main method of offsetting emissions

is the execution of the Red Eléctrica Forest programme, described in the 'Contribution to social, economic and environmental development' chapter.

In addition, for the fourth consecutive year, the Company has offset part of its emissions derived from the daily commutes of its employees by **purchasing 2,200 VCUs (Verified Carbon Unit)** under the VCS (Verified Carbon Standard), which correspond to the emissions generated by all those workers who have answered the 2017 mobility survey.

The offsetting has been made by supporting a project selected by the participants in the survey: Madre de Dios Amazon REDD Project, a deforestation project which was halted in the Amazon jungle (Peru) that contributes to the conservation of biodiversity in the area and the development of indigenous communities.

VCU
VERIFIED CARBON UNIT



The Company has offset

56 %

of the emissions generated by the workforce in their daily commute

-
For this, they have purchased 2,200 VCUs



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Transmission grid losses are the difference between the energy generated and the energy demanded for its distribution.

TRANSMISSION GRID LOSSES 103-1 / 103-2 / 103-3 / EU12

The energy losses in the transmission grid are accounted for within the emissions of scope 2, as indicated by the GHG Protocol. The emissions associated with them are calculated taking into account the energy lost in the grid (transmission grid losses) and the emission factor of the energy mix (tCO₂eq./MWh) (calculated by Red Eléctrica according to the amount of energy generated by different technologies). None of these factors is controllable by the Company.

The transmission of electricity inevitably leads to energy losses in the grid. This means that a somewhat higher generation is required to satisfy a certain final consumption. There are several factors that generate losses: the Joule effect, the corona effect

and the self-consumption of the electricity substations necessary for them to function correctly. Of all of them, the most relevant is undoubtedly the Joule effect, associated with the current flow through the conductors.

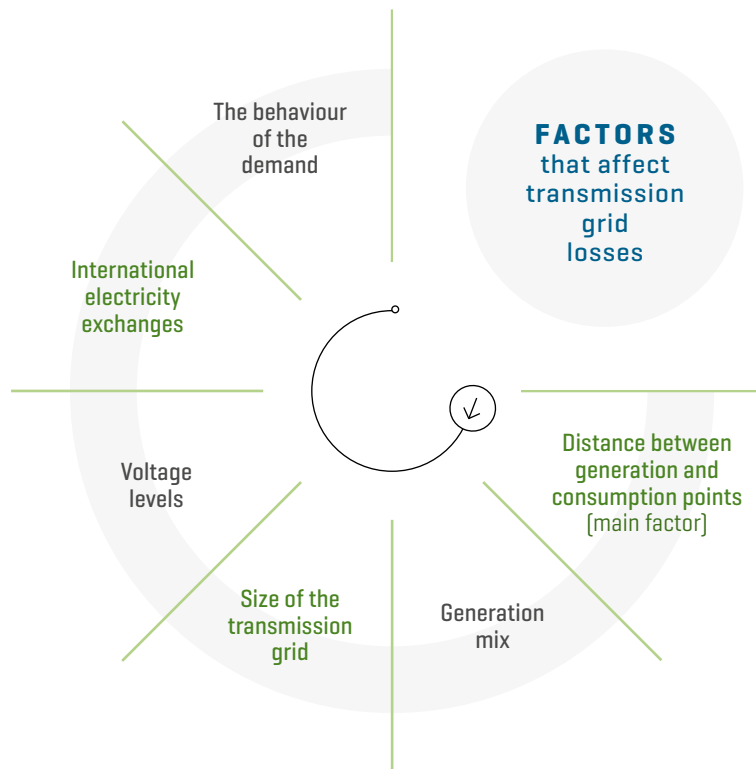
Red Eléctrica works to improve the aspects that depend on its management and that can have an influence on the reduction of these losses. Among them, the following actions are noteworthy:

Development and meshing of the transmission grid

Increase in the number of conductors per circuit

Use of technologies and systems with the higher performance

Maintaining facilities in the best conditions possible to ensure their good operation.



[1] Joule effect: the effect whereby, when an electrical current flows through a conductor, part of the kinetic energy of electrons is transformed into heat which thereby raises the temperature of the conductor. Joule effect losses are proportional to the intensity flowing through the conductor and the resistance thereof, the greater the length of the line the greater this resistance is. In view of this, it can be understood that the losses are mainly related to the distance between points of generation and consumption.



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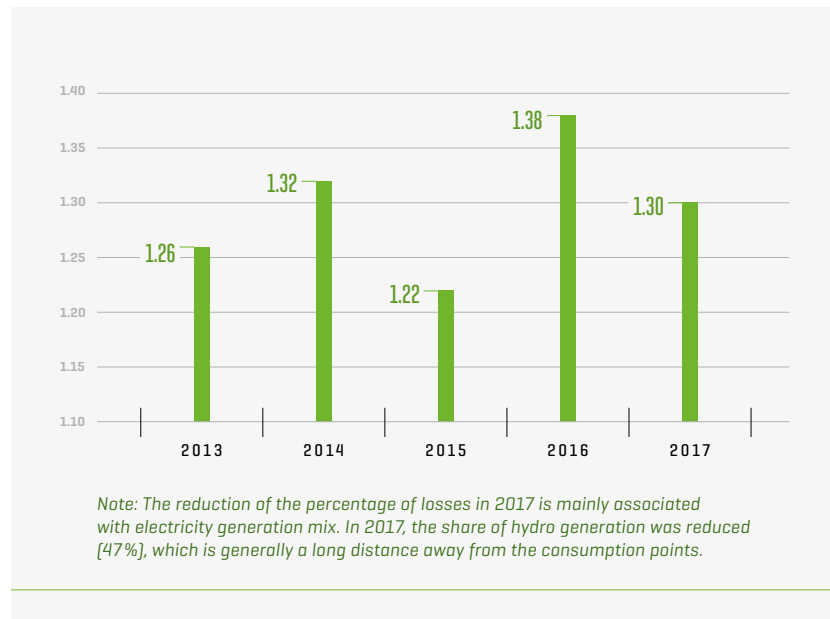
The first two of the aforementioned measures seek the creation of parallel paths to circulate the same intensity, which reduces the resistance and with it the losses. However, all these improvements have a very limited impact on the evolution of energy losses as other aspects, not controlled by Red Eléctrica, are the ones which have the greatest influence.

The losses increase mainly with the increase of distances between the points of generation and consumption. The structure of electricity generation depends on the rules of the electricity market, which are regulated by an independent body. The function of Red Eléctrica as operator of the electricity system must be carried out in accordance with specific and mandatory operating procedures.

In accordance with these procedures, it is not possible to operate the electricity system according to loss reduction criteria, therefore the Company has little capacity to act in relation to said reduction.

On the other hand, it is important to note that, **in the case of the Spanish electricity system, the increase in losses is closely related to the share of renewable energies in the generation mix.** Normally, the increases in hydro and wind generation are related to an increase in transmission distances as this type of generation is usually a long distance away from the consumption points.

Transmission grid energy losses with respect to the peninsular demand %



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Indicators

Fuel consumption 302-1 [Litres]

	2015	2016	2017
Diesel	450,752	712,853	567,942
Petrol	23,799	49,768	52,124
Biodiesel	121	0	0
LPG Autogas	33	0	0
Diesel generator sets ^[1]	5,061	3,452	1,212

[1] Corresponds to diesel refilled in the fuel tanks in the year indicated.
Note: 2015 data has been recalculated to include shared leasing vehicles and managerial vehicles, according to the methodology applied since 2016.

Electricity consumption 302-1 [kWh]

	2015	2016	2017
Total	16,169,682	15,540,936	15,177,175

Note 1: Includes the consumption of the Head office, the electricity control centres (centres that operate 24/7 and have a special energy consumption) and work centres (regional offices and maintenance centres). As of 2016, the consumption of electric vehicles is also included.
Note 2: 2015 (base year) has been recalculated applying the same criteria considered for 2016 and 2017.
Note 3: 84.4% of the energy consumed comes from renewable sources (green energy or with guarantees of origin).

Summary of energy consumption ^[1] 302-1 [Joules]

	2015	2016	2017
Fuel consumption	1.70·10 ¹³	2.82·10 ¹³	2.28·10 ¹³
Electricity consumption	5.82·10 ¹³	5.59·10 ¹³	5.46·10 ¹³

1 kWh= 36·10⁵ joules; 1 litre of diesel fuel= 37·10⁶ joules; 1 litre of gasoline= 34·10⁶, 1 litre of gas oil= 37·10⁶ joules; 1 litre of biodiesel= 32.79 ·10⁶ joules; 1 litre of LPG= 25.7·10⁶ joules
 [1] Overall consumption data (joules) following GRI criteria.

Indirect energy consumption. Electricity 302-1

	2015	2016	2017
Transmission grid losses [MWh] ^[1]	3,167,238	3,587,687	3,409,173
Transmission grid losses [joules]	1.14·10 ¹⁶	1.29·10 ¹⁶	1.23·10 ¹⁶

[1] Losses in the electricity transmission grid are related to the location of generation points in relation to the consumption points the greater the distance, the greater the losses), the amount of energy demanded during the year, the generation mix of the year (percentage of each generation technology in the total energy generated), international exchanges and the shape of the demand curve. Practically none of these factors are manageable by Red Eléctrica, making it very difficult to reduce losses. However, Red Eléctrica works to identify and improve those factors it can have an influence on.
 During 2017, the value of losses in the transmission grid has been reduced compared to the previous year, mainly due to the different distribution of generation in the Spanish peninsular system (lower share of renewable generation, which is mostly furthest from the consumption areas).
Note: The data reflected in this table includes the losses of the peninsular system and those of the Balearic Islands and Canary Islands systems.



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External energy consumption. Internal logistics 302-2

	2015	2016	2017
Fuel consumption (litres)	238,240	196,973	210,870
Fuel consumption (joules)	8.82·10 ¹²	7.29·10 ¹²	7.80·10 ¹²

This fuel consumption corresponds to the transfer of materials between the Company's different facilities (internal logistics). Does not include other types of transfers of materials or people.
1 litre of gas oil = 37·10⁶ joules.

Energy intensity 302-3

	2015	2016	2017
Electricity consumption per employee in Head office (kWh/employee) [1]	7,126	6,763	6,421
Transmission grid losses – peninsular system (MWh/MWh transported) [%] [2]	1.219	1.376	1.289
Transmission grid losses – peninsular and non-peninsular systems (MWh/MWh transported) [%] [2]	1.206	1.355	1.273
Average consumption of vehicles for logistical use (external) (litres/100 km)	26.6	26.4	24.6

[1] The calculation takes into account all staff working at the Head office work centres (employees of the Group, interns, employees from temporary staffing agencies and collaborators).

[2] The percentage indicated corresponds to the energy dissipated in losses with respect to the total demand. The losses of the transmission grid are related to different factors, of which practically none of them is controllable by REE, which makes it very difficult to reduce them. The decrease in the percentage of losses in 2017 is associated with a decrease in total losses, mainly related to the distribution of generation in 2017 (lower share of renewables that is usually farthest from the consumption areas). In addition, there has been a slight increase in the demand for electricity, which also contributes to the reduction of the % of losses. For more information about transmission grid losses, see the section of this chapter: Transmission grid losses.

Reductions in electricity consumption 302-4

	kWh/annually	joules/annually
Efficiency measures in work centres: improvements to insulation, HVAC and lighting [1]	172,085	4.08·10 ¹¹
Efficiency measures in electricity substations: night lighting being switched off [1]	985,500	3.55·10 ¹²
IT efficiency measures: Renewal of desktop equipment, laptops and monitors [1]	51,966	1.87·10 ¹¹

[1] Includes estimated annual reductions resulting from the measures carried out in 2017 (estimations obtained from equipment specifications and information based on energy audits regarding the implementation of measures).

Reduction of fuel consumption 302-4

	litres	joules
Incorporation of electric and hybrid vehicles into the vehicle fleet (owned and shared leasing) [1]	56,740	2.1·10 ¹²

[1] Fuel savings of 2017 have been included in relation to 2016. The savings derived from the reduction of km made have not been taken into account, only the savings associated with the improvement in the efficiency of the vehicles.



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Direct greenhouse gas emissions [Scope 1] (1) (tCO₂ equivalent)

305-1

Direct (Scope 1)	2015	2016	2017
SF ₆ (2)	31,650.83	28,769.66	26,223.98
Air conditioning	840.45	610.00	708.96
Fleet vehicles	2,124.00	1,897.61	1,556.47
Diesel generator sets	182.00	221.87	275.38
Total direct emissions	34,796.81	31,500.00	28,764.78

(1) The calculation of emissions is performed from an operational control perspective. The information on the inventory scope and methodology is available on the REE website (<http://www.ree.es/en/sustainability/sustainable-energy/energy-and-climate-change/our-carbon-footprint>). The inventory was submitted to independent review in accordance with ISAE 3410.

(2) Taking GWP (Global Warming Potential) at 100 years: 22,800 (Source IPCC, Intergovernmental Panel on Climate Change: 4th assessment report).

Note: Red Eléctrica has established 2015 as the base year to establish its reduction objectives. The emissions of the base year have been recalculated according to the current criteria: the emissions of fleet vehicles include the emissions of management vehicles and shared leasing.

Indirect greenhouse gas emissions from the generation of energy [Scope 2] (1) (tCO₂ equivalent)

305-2

Indirect (Scope 2)	2015	2016	2017
Associated with electricity consumption (2)	5,440.69	1,663.82	946.50
Derived from transmission grid losses (3)	911,310.09	847,129.25	956,020.79
Total indirect emissions	916,750.78	848,793.06	956,967.29

(1) The calculation of emissions is performed from an operational control perspective. The information on the inventory scope and methodology is available on the REE website (<http://www.ree.es/en/sustainability/sustainable-energy/energy-and-climate-change/our-carbon-footprint>).

(2) The emissions are calculated under the 'market based' approach, applying the emission factors associated with the market agents that supply the electricity.

(3) The emissions associated with the losses in the transmission grid, in the same way as for the emissions associated with the consumption of electricity, do not occur during the REE activities as they take place at the various electricity generation points. For the calculation of these emissions, the emission factors corresponding to each system (peninsular, Balearic Islands or Canary Islands) calculated by REE are used from the annual generation balances. The increase of these emissions has been considerable in 2017, mainly due to the increase in the emission factor of the peninsular system. Emission factor in tCO₂/MWh: 0.214 in 2016 and 0.258 in 2017, which reflects the decrease in hydro generation (associated with the scarce availability of water due to weather conditions), which has been replaced by generation from non-renewable and more carbon-intensive sources.

Note: Red Eléctrica has established 2015 as the base year to establish its reduction objectives. The emissions of the base year have been recalculated according to the current calculation criteria: in the case of emissions associated with the consumption of electricity, they are recalculated under the 'market based' approach, which has already begun to be applied in the calculation of the inventory of 2016. On the other hand, emissions related to transmission grid losses for island systems (Balearic Islands and Canary Islands) are incorporated. This update also affects the 2016 data.


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Other indirect emissions (Scope 3)

305-3

[tCO₂ equivalent]

	2015	2016	2017
Purchase of goods and services [1]	304,596.37	249,583.89	295,786.84
Capital goods	312,797.44	195,804.21	111,618.72
Energy production (not included in scope 1 and 2)	1,091.66	674.04	516.71
Waste	95.91	90.89	134.09
Transport and distribution [2]	1,416.02	1,594.10	2,287.51
Business travel [3]	1,421.48	1,398.71	1,487.00
Commuting	2,894.32	2,925.85	3,917.57
Leased assets	116.58	81.78	0.00
Total indirect emissions (scope 3)	624,429.78	452,153.46	415,748.45

Note: During 2017, the methodology and the extension of the categories considered in the calculation of scope 3 emissions were reviewed. The emissions corresponding to the years 2015 and 2016 have been recalculated according to the new criteria.

[1] For the correct interpretation of the data, it is also interesting to consider the carbon intensity of the goods and services purchased [2015: 461 tCO₂eq./million euros; 2016: 514 tCO₂eq./million euros; 2017: 504 tCO₂eq./million euros]. This intensity is a function of the type of orders placed in the year and for this reason it is very difficult to establish comparisons between the different fiscal years.

[2] Corresponds to the emissions associated with internal logistics (which were already calculated until 2016) and other emissions associated with the transfer of materials.

[3] Included are trips made by train, plane, own vehicle, rental vehicle and taxi.

Greenhouse gas emissions intensity

305-4

	2015	2016	2017
Emission of SF ₆ /SF ₆ installed [%] [1]	0.37	0.30	0.26
Emissions from fleet vehicles [kg of CO ₂ /km] [2]	0.27	0.16	0.14
Emission (scope 1 and 2) /revenue (tCO ₂ /million euros) [3]	541	488	540
Emissions /revenue (tCO ₂ /million euros) [4]	22.1	18.4	16.3
Emissions/energy transported (tCO ₂ /GWh) [5]	3.8	3.3	3.7

[1] The emission rate is calculated based on emissions data calculated according to actual data regarding leakage.

[2] All types of vehicles are included. In 2015, only vehicles owned by Red Eléctrica were considered. As of 2016, the vehicles for shared leasing are also considered (without including management vehicles or fleet of electric vehicles)

[3] Emissions of scope 1 and 2 (including transmission grid losses). The indicator has been recalculated for all years, taking into account the emission data of scope 1 and 2 recalculated according to the new criteria.

[4] Emissions of scope 1 + emissions of electricity consumption. REE considers it relevant to monitor this indicator, without including the transmission grid losses (as it is not possible to act on them, as explained before). The recalculated data have been included according to the recalculated emissions according to the new criteria.

[5] Emissions of scope 1 and 2 (including transmission grid losses). The total energy transported corresponds to the annual demand measured at power station busbars. The indicator has been recalculated for all years, including the emissions recalculated according to the current criteria and considering the annual demand in the peninsular, Balearic Islands and Canary Islands systems.

Reduction of greenhouse gas emissions

305-5

Net savings [1]

	tCO ₂ eq.
Savings in emissions due to the incorporation of electric and hybrid vehicles into the fleet (owned and shared leasing)	144
Savings in emissions due to contracting an electricity supply with a Guarantee of Origin [2]	3,732

Annual savings [3]

	tCO ₂ eq./year
Efficiency measures in work centres: improved insulation, HVAC and lighting	11
Efficiency measures in electricity substations: night lighting being switched off	255
IT efficiency measures: Renewal of desktop equipment, laptops and monitors	3
Reduction in SF ₆ emissions due to the replacement of old equipment for new ones with a lower leakage rates	302

[1] Net savings compared to 2016 (measured or estimated). [2] Electricity with guarantees of origin: 0 tCO₂/kWh. [3] Reductions associated with the measures implemented in 2016.



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Corporate governance

GOVERNANCE OF THE RED ELÉCTRICA GROUP

Red Eléctrica's commitment to adopting the best corporate governance practices is materialised in a management that goes beyond legal compliance and the main recommendations at both national and international level.

The Company has voluntarily implemented measures and initiatives that seek to respond to the concerns of shareholders, investors and markets, addressing the core issues of greatest relevance in the good governance of the Company.



Corporate governance **recognition** by the
'Ethical Boardroom Magazine' **for the second**
year in a row.

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Noteworthy actions in 2017

BOARD ACTIVITY

- Implementation of the Regulations of the Board of Directors approved in December 2016.
- Complete digitalisation of the sessions of the Board of Directors and its Committees.
- Ongoing reinforcement of gender diversity on the Board of Directors with the appointment of a female nominee director.
- Appointment, ratification and re-election of three board members at the General Shareholders' Meeting, with an average of 97.88% of the votes in favour.
- Development and implementation of the new Compliance System.
- Assessment of the Board of Directors with the collaboration of a new external consultant.

ADAPTATION AND REVISION OF PROCEDURES

- Review and approval of the contingency plans for the succession of the Chairman of the Board and the CEO.

- Adaptation of the Internal Code of Conduct on the Securities Market to the European Regulation on Market Abuse.
- Approval of the new Induction Plan for new board members.

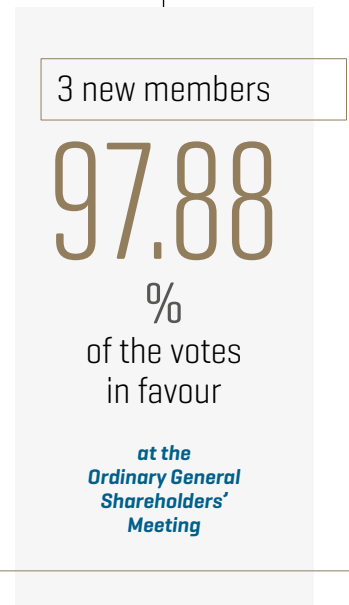
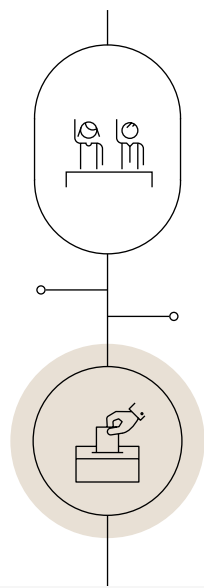
COMMUNICATION

- New design and revision of the contents of the Annual Corporate Governance Report 2017 in order to maintain a position of leadership in corporate governance.
- Transparency in matters of tax policy.
- Annual disclosure of improvements regarding corporate governance.

RECOGNITIONS

- Corporate governance recognition, for the second year in a row, by the prestigious English publication 'Ethical Boardroom Magazine'.
- Recognition as a World and European leader in the electric utilities and utilities super-sector in the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index.

Appointment of BOARD MEMBERS



Internal rules of governance

31 December 2017

- Code of Ethics
- Corporate By-laws
- Regulations of the Board of Directors
- Internal Code of Conduct on the Securities Market
- Regulations of the General Shareholders' Meeting
- Procedure on proxies, voting and information by remote means at the General Shareholders' Meeting [referring to the Ordinary General Shareholders' Meeting held in 2017]
- Operating Rules of the Shareholders' Electronic Forum [referring to the Ordinary General Shareholders' Meeting held in 2017]



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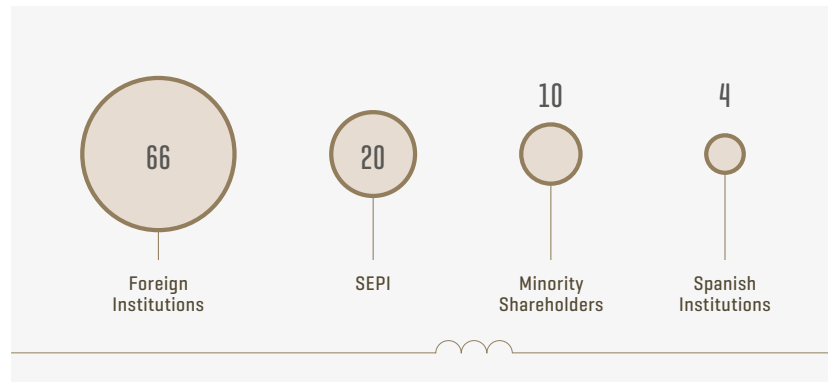
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CORPORATE SHAREHOLDING STRUCTURE

As at 31 December 2017, the Company's share capital was comprised of 541,080,000 fully subscribed and paid-up shares belonging to a single class and series, each with a par value of 0.5 euros, represented by book entries and listed on the four Spanish stock exchanges.

The coming into force of Law 17/2007, of 4 July, introduced a series of legal limitations on participation and voting rights applicable to the Company's shareholders, with the aim of guaranteeing the independence of the Company vis-a-vis all other electricity sector activities

Shareholding structure %



and agents. In this regard, the following limits were established:

- Any individual or legal entity may hold shares in the Company, provided that the sum of their direct and indirect interests in the Company's capital does not exceed 5% of the capital and they do not hold more than 3% of the voting rights.
- The special regime for the State Industrial Holding Company [SEPI] is maintained, whereby it must hold at least ten percent [10%] of the share capital in all cases.
- Parties that engage in activities in the electricity sector, and those individuals or legal entities that directly or indirectly hold more than 5% of its capital, may not exercise more than 1% of the voting rights in the Company.

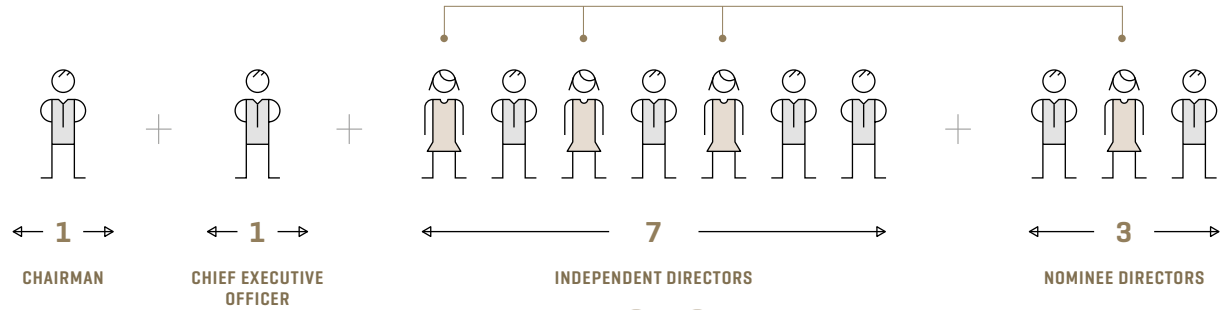
In 2017, the share capital of the Company was comprised of a 20% shareholding owned by SEPI, with the remaining 80% being free float.

GOVERNANCE STRUCTURE
102-18 / 102-22

GENERAL SHAREHOLDERS' MEETING

BOARD OF DIRECTORS
AS AT 31 DEC 2017

33.3% WOMEN



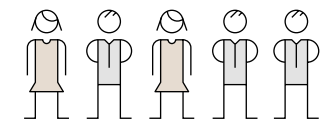
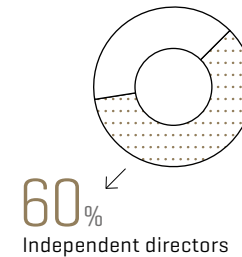
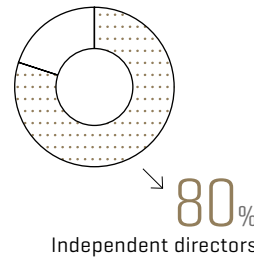
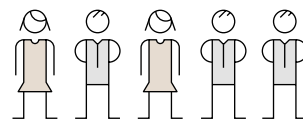
58.3%

AUDIT COMMITTEE

APPOINTMENTS AND REMUNERATION COMMITTEE

CHAIRMAN
Independent director

CHAIRMAN
Independent director



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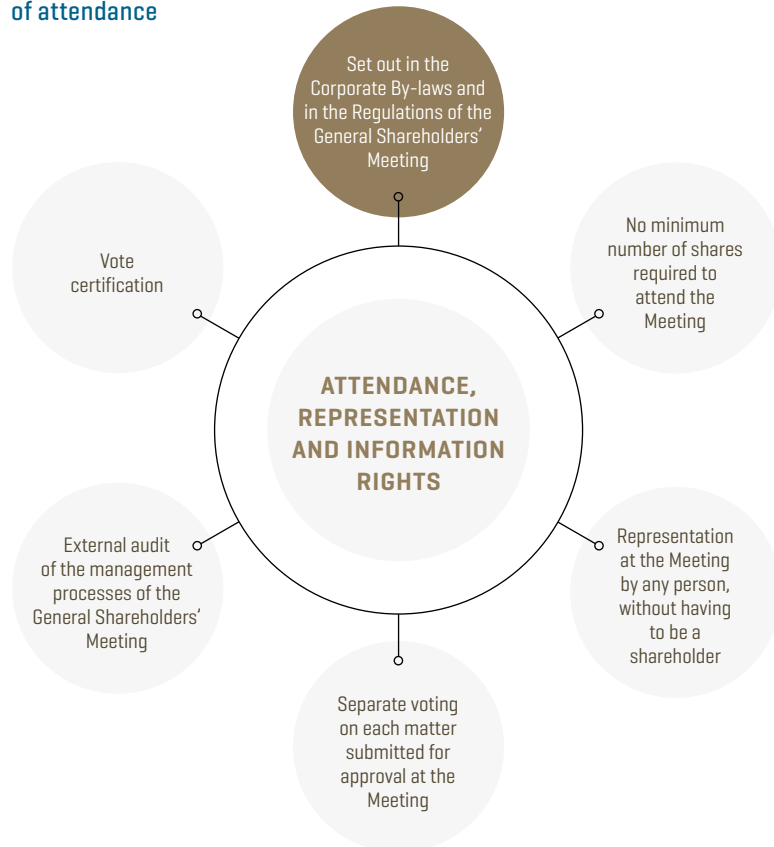
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GENERAL SHAREHOLDERS' MEETING

The General Shareholders' Meeting represents all shareholders and exercises the duties assigned to it as the governance body of the Company. The rules on the

organisation and functioning of the General Shareholders' Meeting are set out in the Corporate By-laws - articles 11 through 18 inclusive - and in the Regulations of the General Shareholders' Meeting.

Guarantees and rights of attendance

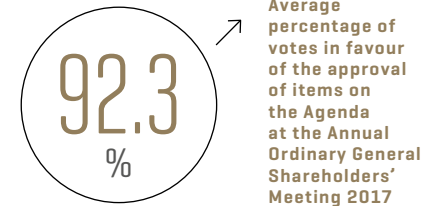


Transparency and participation

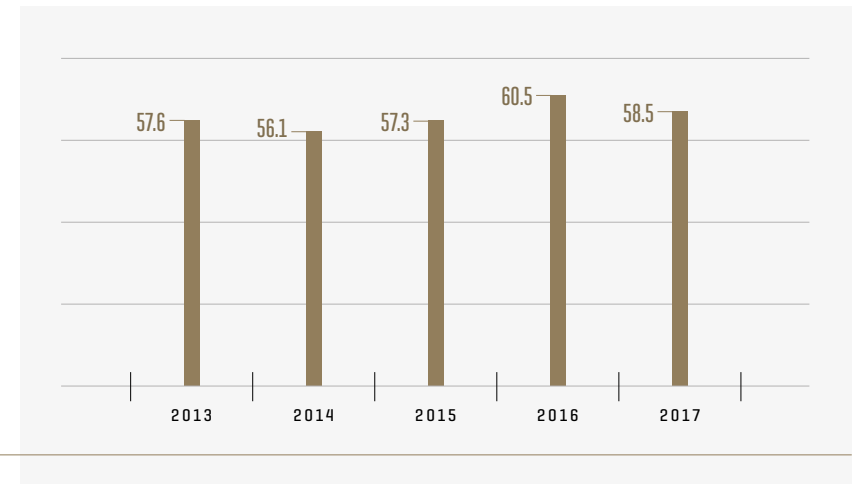
The Company pays special attention to the right to information, as reflected in Article 15 of the Corporate By-laws and in the Regulations of the General Shareholders' Meeting, which also facilitates the maximum participation of shareholders. Some of the key mechanisms are:

- Live broadcast of the Meeting via Internet, with simultaneous translation in English and sign language in Spanish.
- Shareholders' Electronic Forum.
- Dissemination via social networks.
- Shareholders and investors office.

- Implementation of the electronic voting system at the General Shareholders' Meeting since 2005.
- Section on the corporate website with complete information regarding the Meeting.



Percentage of attendees at the Ordinary General Shareholders' Meeting % over share capital



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BOARD OF DIRECTORS 102-22 / 102-26

The Board of Directors governs, manages and represents the Company, notwithstanding the powers that correspond to the General Shareholders' Meeting. It carries out its duties and responsibilities according to

the rules of organisation and functioning contained in the Corporate By-laws and the Regulations of the Board.

The **responsibilities** of the Board of Directors can be summarised as follows:



Approval

Approval of the general policies and strategies of the Company and the Group, with special mention for the risk management control policy.



Decision

Decision-making on appointments of senior directors who may report directly to the Board or any of its members, remuneration of board members, financial information, strategic investments or transactions, creation or participation in special purpose entities or with registered offices in tax havens and authorisation regarding related-party transactions.



Assessment

Annual assessment of the quality and efficiency of the Board and the functioning of its Committees.

During 2017, the Board of Directors held eleven (11) sessions and in the course of these sessions there were 4 attendances by proxy, so the

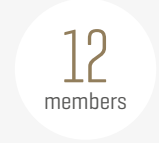
number of physical attendances stood at 128, representing an overall 97% attendance.

KEY INDICATORS OF THE BOARD OF DIRECTORS

REDUCED AND BALANCED BOARD



1 Chairman



1 Executive board member

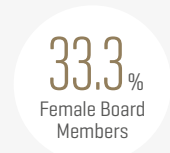


3 Nominee directors



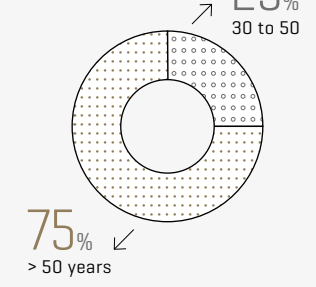
7 Independent directors

DIVERSITY ON THE BOARD

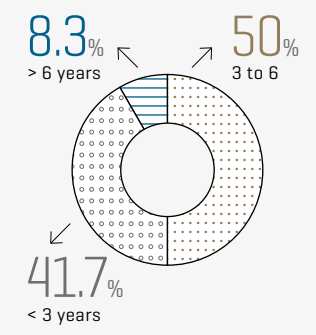


IBEX 35 Average: 19.7%
[CNMV. 2016 data]

AGE



LENGTH OF SERVICE (1)



(1) Average term of office of Directors 3.6 years.



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Full separation of duties and powers, since 2016, between the position of Chairman of the Board of Directors and that of Chief Executive Officer.

Balance of powers

Red Eléctrica establishes in its Corporate Governance Policy the essential guideline to preserve an adequate balance and proportionality in the powers inherent to the Board of Directors' structure and composition, by adopting the necessary measures to enable action with unity of purpose and impartiality, pursuing the interest of its stakeholders and of society as a whole, as well as the sustainability of the Company.

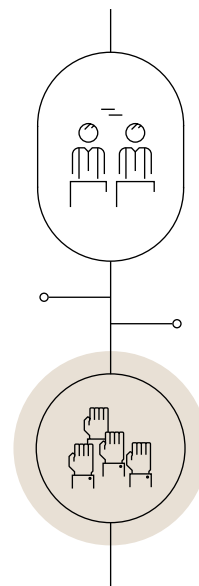
Separation of the positions of Chairman of the Board of Directors and Chief Executive Officer (CEO) / 102-23

Responding to the commitment undertaken by the Company's Chairman at the General Shareholders' Meeting held in April 2012, and the commitment

to best international practices in corporate governance, the Board of Directors of Red Eléctrica submitted the separation of the positions of Chairman of the Board and CEO of the Company, as well as the appointment of Juan Francisco Lasala Bernad as executive board member, for approval by the General Shareholders' Meeting at its extraordinary session held on 17 July 2015 and convened solely for this purpose. Both proposals received a favourable vote of 99% of shareholders, with an attendance figure of 58%. The Board of Directors at its meeting on 28 July 2015, appointed Juan Francisco Lasala Bernad as the new CEO of the Company.

In order to complete the process for the separation of powers, a transition phase was established which culminated at the Annual Ordinary General Shareholders'

Separation OF POSITIONS



Between that of Chairman and CEO after the favourable vote of

99 %

of the shareholders

58% percentage attendance

Meeting in 2016, with the full separation of the duties between the Chairman of the Board and the Chief Executive Officer. As of said Meeting, the Chairman of the Board of Directors has been attributed exclusively the responsibilities inherent to said position.

Until the Annual Ordinary General Shareholders' Meeting 2016, the Chairman maintained his executive powers, focusing his efforts on managing, supporting and fostering the transfer of executive powers to the new CEO in order for the said transfer to take place in a rational and organised manner during the transition phase. Therefore, the CEO took on executive duties as of the date of his appointment.

Moreover, the figure of the lead independent director created in 2013 has remained unchanged. This figure along with the responsibilities assigned to said role, is recognised by shareholders and proxy advisors as an effective corporate governance practice.

BOARD OF DIRECTORS / AS AT 31 DEC 2017

CHAIRMAN



José Folgado Blanco

CHIEF EXECUTIVE OFFICER



Juan Francisco Lasala Bernad

NOMINEE DIRECTORS [SEPI] *



Fernando Fernández Méndez de Andés
Member of the Audit Committee



Santiago Lanzuela Marina
Member of the Appointments and Remuneration Committee



Mercedes Real Rodríguez
Member of the Appointments and Remuneration Committee



Carmen Gómez de Barreda Tous de Monsalve
Member of the Appointments and Remuneration Committee and Lead Independent Director

GENERAL COUNSEL AND SECRETARY OF THE BOARD



Rafael García de Diego Barber
Non-Board Director

INDEPENDENT DIRECTORS



María José García Beato
Member of the Audit Committee



Socorro Fernández Larrea
Member of the Audit Committee



Arsenio Fernández de Mesa y Díaz del Río
Member of the Audit Committee



Antonio Gómez Ciria
Chairman of the Audit Committee



José Luis Feito Higuera
Chairman of the Appointments and Remuneration Committee



Alberto Carbajo Josa
Member of the Appointments and Remuneration Committee

The Company has a reduced, effective and efficient Board. It is the key driver and lever of good corporate governance and the cornerstone of the Company's strategic framework.

[*] SEPI: State-owned Industrial Holding Company.



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AUDIT COMMITTEE

The Audit Committee is assigned, among other functions, those of providing support to the Board in its role as monitor of the process for the drafting of financial information, internal control of the Company and independence of the external auditor. It also monitors compliance with legal provisions and internal regulations and those relating

to the shareholders of the Company, along with those powers which the Board of Directors expressly attributes to said Committee.

During 2017, this commission held 11 meetings, with one absence and one attendance by proxy having been registered.

APPOINTMENTS AND REMUNERATION COMMITTEE

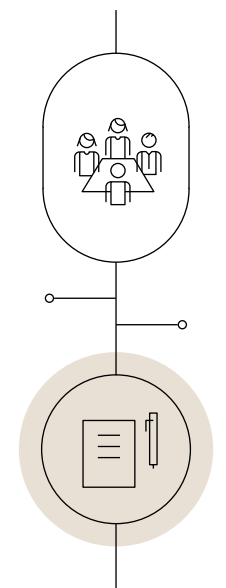
This Committee has duties and powers assigned to it regarding the appointment and removal of board members and senior executives, their remuneration, the fulfilment of their duties as administrators and their respect for the principles and rules of corporate governance and that of the Corporate Responsibility Policy. In addition, on an annual basis, it drafts a specific report on diversity and gender equality that is submitted to the Board for approval.

During 2017, the Appointments and Remuneration Committee held 11 meetings, with one attendance by proxy having been registered.

DELEGATION OF ECONOMIC, SOCIAL AND ENVIRONMENTAL MATTERS 102-19 / 102-20

The policy of the Board is to delegate the day-to-day management of the Company and that of the Group to the executive bodies and the

Meetings 2017



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MEETINGS

of the Audit Committee and of the Appointments and Remuneration Committee



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management team and focus its activity on the overall supervision and approval of the essential guidelines for action.

As a result of the separation of the duties and powers of the Chairman of the Board and of the Chief Executive Officer, the Company has two clearly differentiated management bodies composed of senior executives:

The Advisory Committee to the Chairman's Office, headed by the Chairman of the Board and the Executive Committee, chaired by the CEO. In both committees, the secretary of the Board of Directors acts as secretary.

With the creation of both separate committees, attempts have been made to replicate, within the organisation, the model of

separation of duties and powers between the Chairman and the Chief Executive Officer so that the Committee chaired by the Chairman exercises the duty of strategic supervision and control, while the Committee chaired by the CEO carries out a permanent monitoring of the development of the business and of the corporate activities.

is: to consolidate, develop and nurture symmetrical mechanisms of dialogue and engagement with shareholders, investors and key stakeholders seeking to improve relationships, increase levels of engagement and thereby increase their confidence in the organisation.

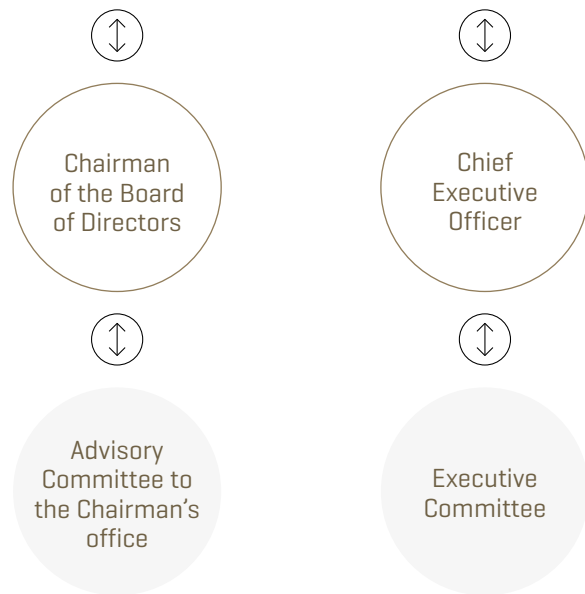
In compliance with this principle, Red Eléctrica strives to fulfil the demands of institutional shareholders, given their noteworthy presence in the Company's shareholding structure, as well as the most relevant proxy advisors and other stakeholders, in order to improve its relationship with them, increase commitment and strengthen their trust, notwithstanding the guarantees and equal treatment enjoyed by other shareholders.

DIALOGUE BETWEEN STAKEHOLDERS AND THE HIGHEST GOVERNANCE BODY
102-21 / 102-33 / 102-34

One of the underlying principles of the Corporate Governance Policy of Red Eléctrica and that serves as a benchmark for the performance of the Company in its relationship with its stakeholders

Red Eléctrica seeks to improve relationships, increase the level of engagement with shareholders, investors and key stakeholders and thereby increase their confidence in the organisation.

BOARD OF DIRECTORS





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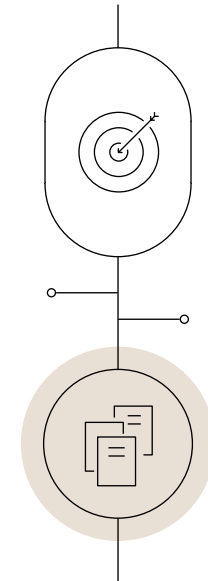
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Commitment TO SHAREHOLDERS



Periodic and standardised information **REGARDING** the environmental, social and good corporate governance **OBJECTIVES**

Red Eléctrica undertakes the commitment to provide its shareholders with periodic and standardised information that communicates the corporate environmental, social and good governance objectives that are part of the Company's social interest.

Besides the direct communication channels indicated in the 'Transparency and Participation' section of this chapter, and detailed in the Annual Corporate

Governance Report and in the Regulations of the Board [Articles 39-44], and in the criteria regarding communication with shareholders, institutional investors and proxy advisors, the highest governance body has other consultation mechanisms for the interaction with stakeholders among which the following are noteworthy:

- Consultation and whistle-blowing channels regarding the Code of Ethics.

- Social representation/ committees.
- Stakeholder satisfaction reports.
- *Dígame* Service.

During 2017, there have not been any relevant issues stemming from the management reports of said channels that required their submission to the Board.



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The Appointments and Remuneration Committee defines the ideal profile for the Board member position considering aspects such as: expertise in the energy, business and financial sectors; experience on Boards of Directors, as well as in the management of organisations and management teams.

SELECTION OF BOARD MEMBERS 102-24

The system used for the selection, appointment and re-election of members of the Board of Directors is expressly governed by the Corporate By-laws and the Regulations of the Board.

Red Eléctrica applies the principle set out in its Corporate Governance Policy approved in December 2014 in order to ensure that appropriate procedures exist to select Board members, guaranteeing a reasonable balance and diversity within the Board of Directors in order to adequately perform its duties and responsibilities.

Similarly, in this matter, the Appointments and Remuneration Committee has criteria that define the ideal profile to take up the position of board member, defining

the qualities, competencies and experience that the ideal candidate should meet in order to hold a position on the Board.

As initial values for the analysis of the candidate for board member, said profile takes into account, experience and knowledge of the energy sector, experience in business and on boards of directors and other governing bodies of public or private entities, on the boards of directors of listed companies, experience in finance and financial markets, and the management of organisations and management teams, as well as knowledge of other languages.

In addition, before issuing its report or formulating a proposal for the appointment of a board member, the Appointments and Remuneration Committee always analyses the diversity of profiles and contributions of the current members of the Board of Directors,

in order to ensure that at all times the Board has the knowledge and experience necessary to successfully address upcoming challenges and efficiently and proactively progress in the fulfilment of the strategies and objectives of the Company and the Red Eléctrica Group.

For the drafting of the aforementioned proposal, the Appointments and Remuneration Committee request, when deemed necessary, among other proposals and suggestions, the opinion of international external advisors specialised in the selection process of board members. These advisors propose different candidates and issue the corresponding reports in which they assess the competences and experience of each candidate. These reports are carefully analysed and

assessed by the Appointments and Remuneration Committee so that a proposal for the appointment of a board member can be drafted and submitted to the Board.

In this regard, when evaluating the candidates participating in the selection process, the procedure takes into account the competences, training, experience, professionalism, suitability, gender, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at each moment, being the Appointments and Remuneration Committee that takes on the most important role in this process.

The appointment and removal of board members, as well as the ratification of appointments by co-optation, if applicable, is subject to approval at the General Shareholders' Meeting.

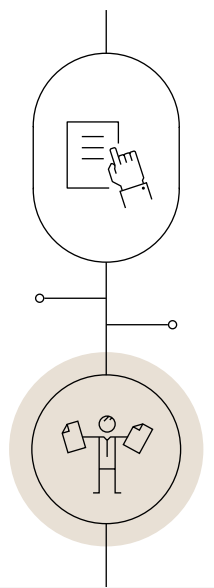
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CONFLICTS OF INTEREST 102-25

In relation to the board members, in accordance with article 31 e) of the Regulations of the Board, they must adopt the necessary measures to avoid situations in which their interests, whether for their own account or that of another, can come into conflict with the corporate interests and their duties to the Company. Article 32 of the Regulations of the Board sets out details regarding the duty to avoid situations of conflicts of interest referred to in article 31 e) and specifically in relation to those situations in which the board member must abstain. In all events, board members must disclose to the Board of Directors any situation of direct or indirect conflict that they, or their related persons may have with the interest of the Company. The situations of conflict of interest that involve board members shall be disclosed in the notes to the annual financial statements.

Regarding the senior management, conflicts of interest are regulated by the Code of Ethics, specifically in Section 6 of said Code.

Regulations OF THE BOARD



Article 32 establishes the duty to avoid **CONFLICT OF INTEREST** situations

The situations of conflict of interest that involve board members shall be disclosed in the notes to the annual financial statements

The annual assessment of the functioning and performance of the Board of Directors had **the collaboration of a new external consultant.**

ASSESSMENT OF THE COMPETENCIES AND PERFORMANCE OF THE BOARD 102-27 / 102-28

For many years now, Red Eléctrica has been applying the principle of conducting an annual assessment of the functioning and performance of the Board of Directors, the Chairman of the Board, the Chief Executive Officer of the Company and the Board's Committees, ensuring that this is conducted with the support of independent external advisors. The process corresponding to 2016 has had the collaboration of a new external consultant and was carried out under the management of the

APPROVAL of the new Induction Plan for new board members.

Appointments and Remuneration Committee in coordination with the lead independent director, and a summary of its main conclusions is voluntarily published in the Annual Corporate Governance Report. The Board of Directors has agreed to initiate a new process of self-assessment of the Board, related to 2017, with the support of an external consultant.

In terms of knowledge development, Article 26 of the Regulations of the Board of Directors of Red Eléctrica establishes that the Company will have an information programme that quickly provides new board members with adequate knowledge about the Company and its corporate governance rules and shall also offer programmes for board members to update their knowledge when circumstances deem it appropriate. As a new element in this regard, in 2017



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a new induction plan was approved for new board members that sets out the essential information, documentation and training that must be provided to new board members incorporated into to the Company.

In addition, on a periodic basis, internal information programmes on national and international trends in Corporate Governance may be established. One of the tools that has contributed to increasing the efficiency of the Board and its Committees has been the **Board members intranet**, in which relevant information is published, such as the minutes of the meetings held by the Board and its Committees, as well as corporate information of interest regarding economic, social and environmental issues. Also, noteworthy in 2017 was the full digitalisation of the sessions of the Board of Directors and the Board Committees, whereby meetings are already being held via mobile devices [tablets and smart phones] and in addition access to a custom-designed corporate intranet was made available.

Since 2015, **ESG criteria** [environmental, social and corporate governance] has been applied in the calculation of the **variable remuneration** of the Chief Executive Officer and senior management.

REMUNERATION OF THE BOARD 102-35 / 102-36 / 102-37

Red Eléctrica applies the principle of maintaining a remuneration policy for the Board of Directors based on the principles of moderation, relationship with its effective dedication, alignment between the strategies and long-term interests of the Company and its shareholders and other stakeholders, including performance incentives whose monetary value would, in no way, have an influence on the independence of the board member.

To do this, the Company carries out comparative analyses with other comparable companies and permanent contact is maintained with its shareholders and proxy advisors. As a result of this analysis and the market study carried out by the Company, with the support of an international consultant, in 2014 a new remuneration structure was established that replaced the variable remuneration part with that of fixed remuneration, with the variable component of the remuneration of the external board members being completely removed.

Only the remuneration of executive board members also includes variable remuneration elements linked and aligned with the short and long-term objectives of the

Company. The proposal regarding remuneration of the Board was approved by a clear majority at the General Shareholders' Meeting held on 31 March 2017 with just 0.7 percent of votes against. It is a well-known fact that for many years the public shareholder SEPI abstains with regard to the vote at the Ordinary General Shareholders' Meeting on proposals regarding Board remuneration and that this is the stance it maintains in the listed companies in which it has a minority shareholding.

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Noteworthy aspects regarding the remuneration of the Board

Since 2010, Red Eléctrica has voluntarily submitted the Annual Report on Remuneration of Directors and, since 2007, the proposal for the annual remuneration of the Board of Directors, to the approval of the Ordinary General Shareholders' Meeting, as separate and independent items on the Agenda of the General Shareholders' Meeting. Therefore, the proposals and reports on these matters are submitted to the shareholders and are binding in nature.

In 2017, this same course of action was continued and the proposal for the remuneration of the Board of Directors for 2017 and the Annual Report on Remuneration of Directors were submitted to the

ALL THE DETAILED INFORMATION

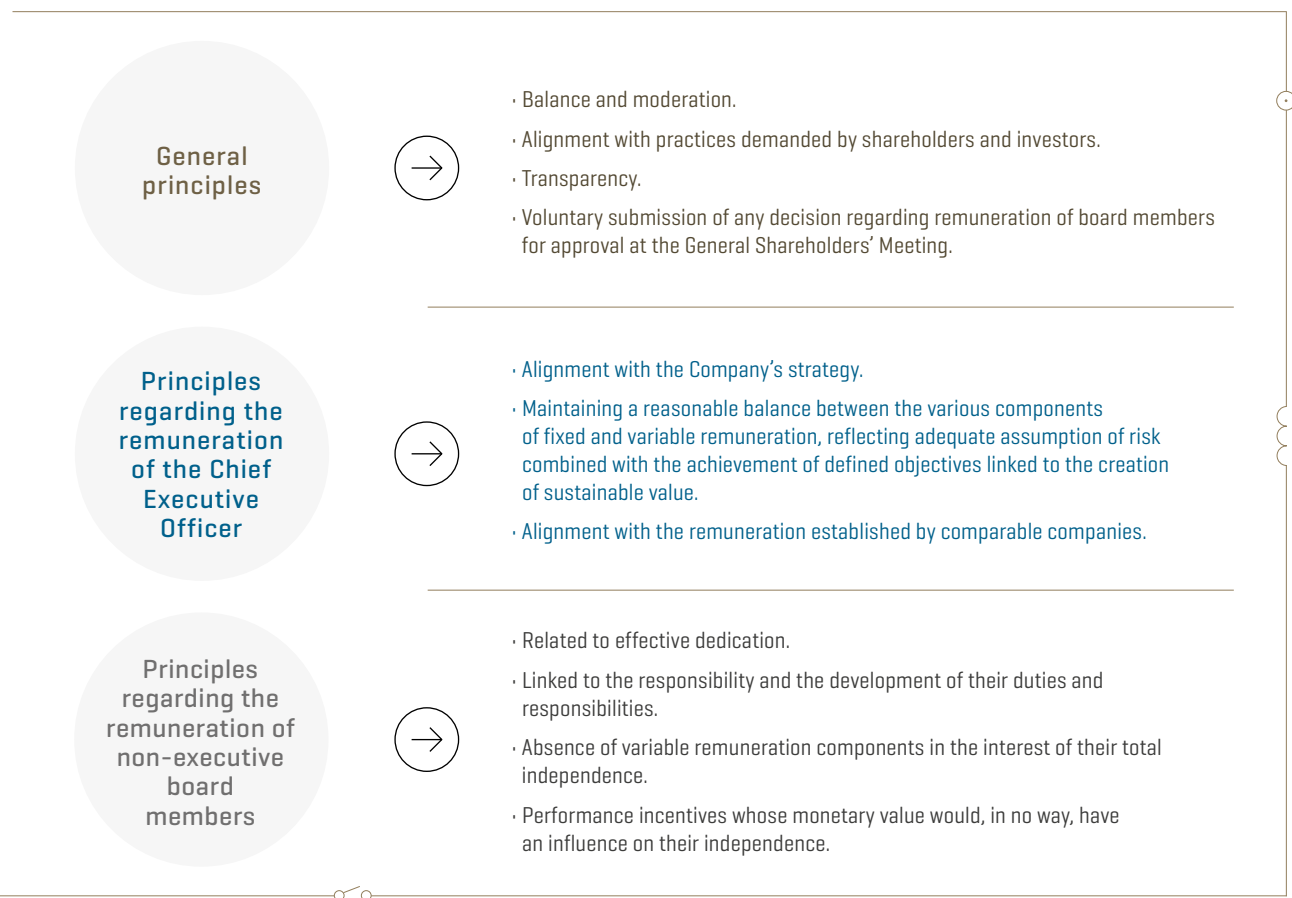
regarding the remuneration of the Board of Directors can be found in the Annual Report on Remuneration of Directors and in the remuneration policy of the Board of Directors, available in the Corporate Governance section on the corporate website.

shareholders' approval (binding vote) as separate and independent items on the Agenda of the Ordinary General Shareholders' Meeting. In this way, Red Eléctrica Corporación S.A. has continued to align itself with the best practices of corporate governance, which aim to provide shareholders

with sufficient autonomy and independence of criteria to vote individually and separately on each of the items on the Agenda, of a diverse nature, which correspond to the competence of the General Shareholders' Meeting.

Principles of the remuneration policy

The Remuneration Policy of Directors, approved by the Annual Ordinary General Shareholders' Meeting held on 15 April 2015, amended in the Meeting held on 15 April 2016, is based on the principles shown below:





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ETHICS AND COMPLIANCE OF THE RED ELÉCTRICA GROUP



Ethics and compliance of the Red Eléctrica Group

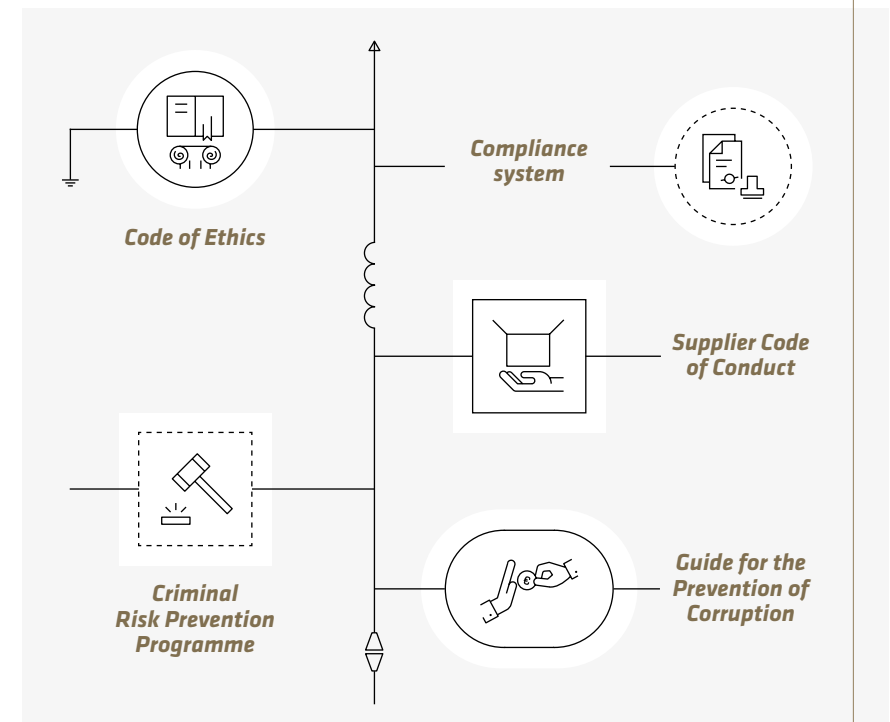
[/102-16](#) / [/102-17](#) / [/103-1](#) / [/103-2](#) / [/103-3](#)

Ethics and compliance for the Red Eléctrica Group are fundamental pillars for the proper functioning of the business activity. This means acting with the utmost integrity in carrying out the obligations and commitments entrusted to the Group, as well as in the relationship with its stakeholders.

The Red Eléctrica Group has a series of corporate conduct rules that establish the values and business conduct guidelines that must be undertaken by every single person in the Group in the performance of their professional activities.

In addition, the Group has a Compliance System aligned with the best practices in this area, in order that the organisation adequately respects the established obligations and commitments undertaken, all based on a proactive culture regarding the management of compliance risks.

INTEGRITY MODEL OF THE RED ELÉCTRICA GROUP



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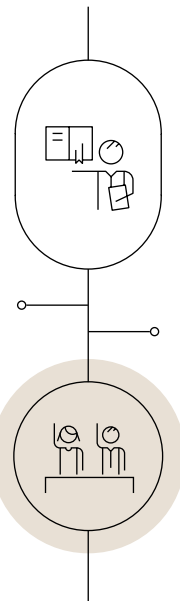
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CODE OF ETHICS

The Code of Ethics of the Red Eléctrica Group aims to provide an ethical guide for managers and employees of the companies of the Group, setting out the values and commitments that should govern the performance of their activity within the Group.

The current edition of the Code of Ethics of the Red Eléctrica Group was approved by the Board of Directors on 28 May 2013 with the aim of taking on board the requirements of stakeholders and the recommendations of the international organisations of repute in this field, among which the following are noteworthy: United Nations Organisation, the European Union, the Organisation for Economic Cooperation and Development and international organisations such as Transparency International or the ÉTNOR Foundation, amongst others.

Code of ETHICS



APPROVED
IN 2013

by the Board
of Directors

-
Professional ethical guide for the corporate management and employees of the Group



SUPPLIER CODE OF CONDUCT

The Red Eléctrica Group has a specific code of conduct for its suppliers in which it stresses the requirement to comply with the respect for **human rights**, and compliance with the requirements of the **environment and occupational health and safety**

by its suppliers, in the procurement of products or services required by the Group, whether they are carried out directly or through other companies.



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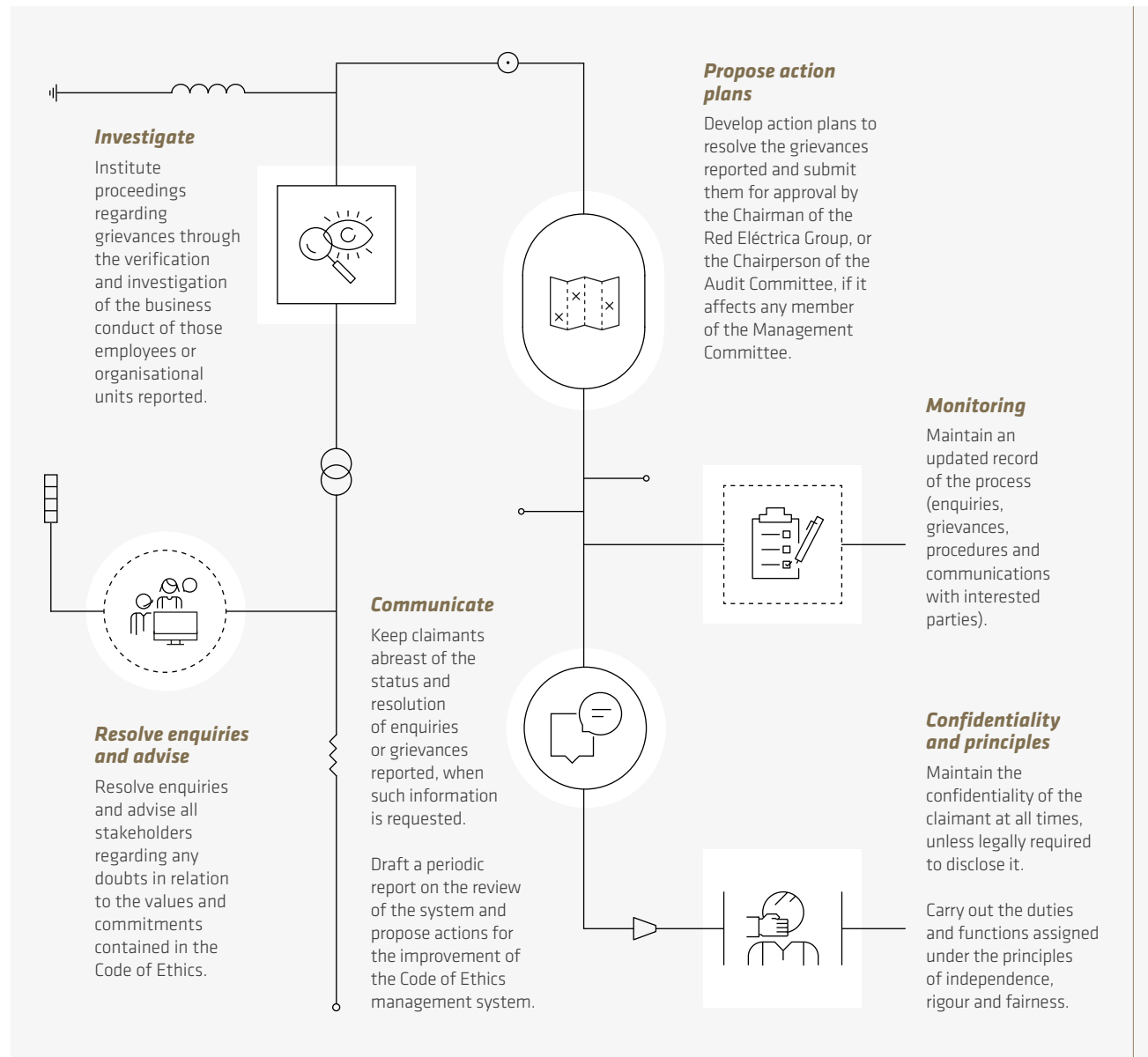
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ETHICS MANAGER

To ensure the awareness, application and enforcement of the Code of Ethics, Red Eléctrica appointed Rafael Garcia de Diego, General Counsel and Secretary of the Board of Directors, as Ethics Manager and Stakeholder Ombudsman. The responsibilities and duties of the Ethics Manager are the following:



In 2017, the Ethics Manager received a total of 26 enquiries through the whistle-blowing channel with a maximum resolution time of 10 days.



WHISTLE-BLOWING CHANNEL 102-16 / 102-17 / 406-1

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 communicated to the Ethics Manager. This channel is audited periodically and guarantees the confidentiality of all users.

In addition, Red Eléctrica has another channel for reporting non-compliance, grievances, enquiries and suggestions regarding ethical matters through its Stakeholder Attention Centre *Dígame*, 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.

CHANNELS OF COMMUNICATION WITH THE ETHICS MANAGER



DÍGAME SERVICE



In 2017, 26 enquiries were received by the Ethics Manager through the whistle-blowing channel, with a maximum resolution period of 10 days. Enquiries received have referred to the following areas 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 and related systems [Information Assurance].

In 2017, seven grievances were received in relation to compliance with the Code of Ethics, five of them were resolved during the year and two are in the resolution phase. More precise information on these grievances can be found in the Annual Executive Report on the Management of the Code of Ethics published in the annex to this report.



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The compliance function has the objective of promoting a global and anticipatory vision of compliance risks, ensuring an efficient control of said risks, guaranteeing the coordination and standardisation of its management at a corporate level.

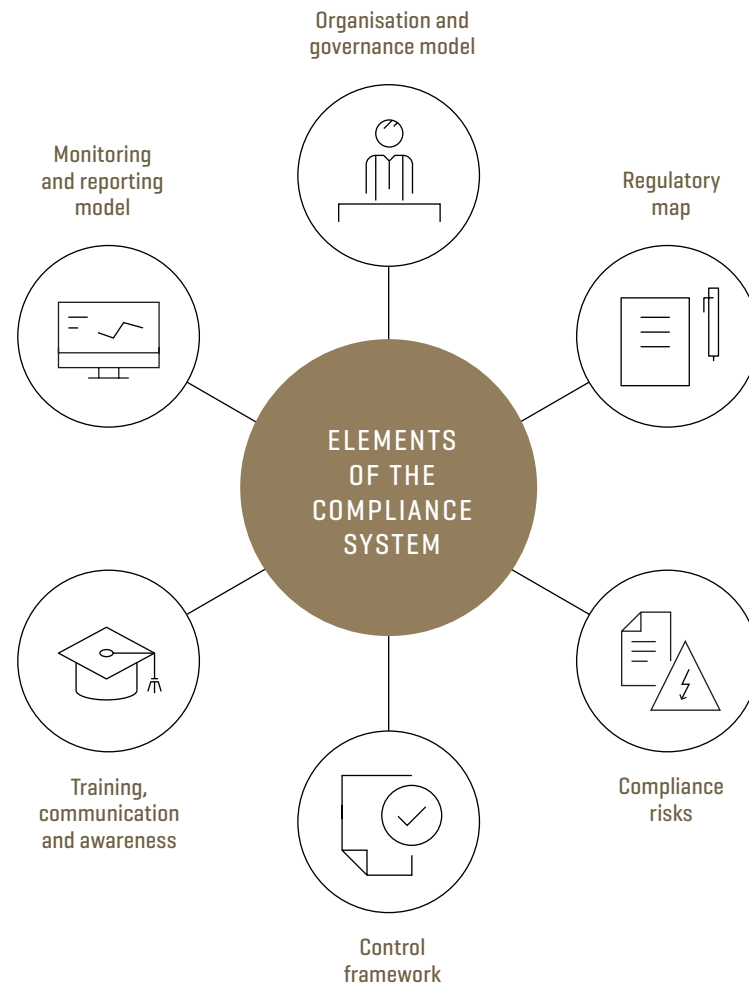
COMPLIANCE SYSTEM

The strengthening of the compliance function is one of the priority actions of Red Eléctrica. This is due, among other reasons, to the demands made by stakeholders requiring the Company to maintain high levels of service excellence and ethical standards when carrying out its functions. Other reasons include the increasing geographical diversification of the Red Eléctrica Group and the progressive development of its scope of activities.

Red Eléctrica has a Compliance System aligned with the best practices in this area, in order that the organisation adequately respects the established obligations and commitments undertaken.

The compliance function has the objective of promoting a global and anticipatory vision of compliance risks, ensuring an efficient control of said risks, guaranteeing the coordination and standardisation of its management at a corporate level, as well as improving internal control in the organisation.

Compliance SYSTEM



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The Compliance Unit, part of the Internal Audit and Risk Control Management Area, is entrusted with the design, development, implementation and monitoring of the Compliance System of the Red Eléctrica Group.

Objectives of the Compliance System

Ensure that external and internal obligations included in the regulations and voluntary commitments are both known and followed, as well as provide due control for their compliance.

Define and develop a compliance risk map for each of the defined regulatory areas.

Systematically identify, analyse and assess with uniform criteria the key controls that mitigate compliance risks.

Inform the control bodies of the Red Eléctrica Group of the status and evolution of compliance in each of the defined regulatory areas.

Promote a corporate culture based on ethics and compliance.

Red Eléctrica continuously promotes a culture based on ethics and compliance, as a fundamental element of due diligence in the management of compliance risks.

Development of a compliance culture
 Awareness and training are key factors for the development of a compliance culture within the organisation. The Compliance Unit is responsible for promoting adequate awareness and dissemination actions to the entire organisation regarding the relevance and strategic nature of the Compliance System for

the Red Eléctrica Group within the integrity culture of the organisation.

Within its commitment to compliance, Red Eléctrica has become part of the Spanish Compliance Association (ASCOM). This organisation was set up in 2014 as the first association whose objective is to give professional status to the function of Compliance. In addition, it acts as a think tank to exchange ideas and best practices among the professionals and entities belonging to it.





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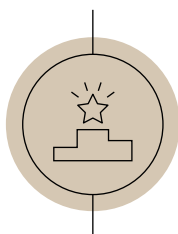
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Maximum
SCORE
For the third consecutive year



IN THE SECTION
Code of Ethics / Compliance /
Anti-Corruption and Bribery
of the Dow Jones
Sustainability Index 2017

Noteworthy actions 2017

- Definition of a specific methodology for the assessment of compliance risks.
- Drafting of a preliminary map of compliance risks.
- Development of the awareness and dissemination plan regarding the compliance system.
- Implementation of the Compliance Forum.
- Maximum score (100 out of 100 points) in the Code of Ethics / Compliance / Corruption and Bribery section of the Dow Jones Sustainability Index 2017, for the third consecutive year.

Objectives 2018

- Review and update of the Code of Ethics of the Red Eléctrica Group to adapt it to the best practices in Compliance.
- Progress in the organisation and governance model of the Compliance System for the Red Eléctrica Group.
- Progress in the methodology for monitoring and controlling compliance risks.
- Development of the plan for training, awareness and dissemination of the compliance culture for 2018.



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CRIMINAL RISK PREVENTION

Red Eléctrica has a **Criminal Risk Prevention Programme** that aims to identify the rules, procedures and tools established within the Group to avoid a breach of

official regulations that carry criminal implications applicable to the Company and its staff, and to adapt it to the regulatory environment. The management and prevention of criminal risks that could affect it, according to its activity and business sector, is thus incorporated into the due diligence exercised by the Red Eléctrica Group.

This programme, approved by the Board of Directors of Red Eléctrica at its meeting on 24 November 2011, has a control body that monitors its compliance and undertakes specific measures to ensure it is adequately updated and implemented.

In 2017, the Ethics Manager received no grievance regarding non-compliances related to criminal risks, and none of the companies of the Group have been investigated or convicted by any law court for breaches related to criminal risks of the organisation.

Members

- Ethics Manager
- Representative of the Internal Audit Department
- Representative of the Risk Control, Compliance and Quality Department
- Representative of the Legal Department
- Representative of the Organisation and Human Resources Planning Department

Receives reports from

- Internal Audit Department
- Risk Control, Compliance and Quality Department
- Legal Department
- Organisation and Human Resources Planning Department

In addition, the Ethics Manager reports on the grievances received with possible criminal implications, maintaining at all times the confidentiality of all the information received.



Functions

Periodically inform the Audit Committee about:

- actions carried out
- proposed improvements
- updates implemented
- agreed measures

Monitor the control measures associated with the scope of criminal risk prevention, its compliance and periodicity.

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PREVENTION OF CORRUPTION
 103-1 / 103-2 / 103-3 / 205-1 / 205-2 / 205-3

The **Code of Ethics** and the corresponding **management system for enquiries and grievances**, in which aspects related to the fight against corruption are included, are an effective mechanism for the detection and handling of possible cases of corruption and fraud. The Code of Ethics must be observed by, and is incumbent upon, the governance bodies and employees of Red Eléctrica. Suppliers must, in turn, fully embrace and undertake to respect the organisation's **Supplier Code of Conduct**.

In addition, the Board of Directors approved the **Guide for the Prevention of Corruption** that sets out corporate values and business conduct guidelines contained in the Code of Ethics related to the main warning signs of corruption. All persons of the Red Eléctrica Group are obliged to know and accept the contents of this guide and review their conduct based on the principles, commitments and controls established therein.

In addition to the aforementioned, processes which could entail vulnerabilities regarding corruption or fraud risk are periodically monitored through internal audits by means of criminal risk and fraud risk prevention programmes which incorporate specific controls on said risks.

In 2017, in accordance with the business conduct guidelines contained in the Code of Ethics, in which any contribution to political parties or organisations is prohibited, no donations, grants or loans to political parties have been made on behalf of the Group.

Furthermore, Red Eléctrica carries out a corruption-risk assessment of its processes. In 2017, the highest levels of corruption risk were assessed.

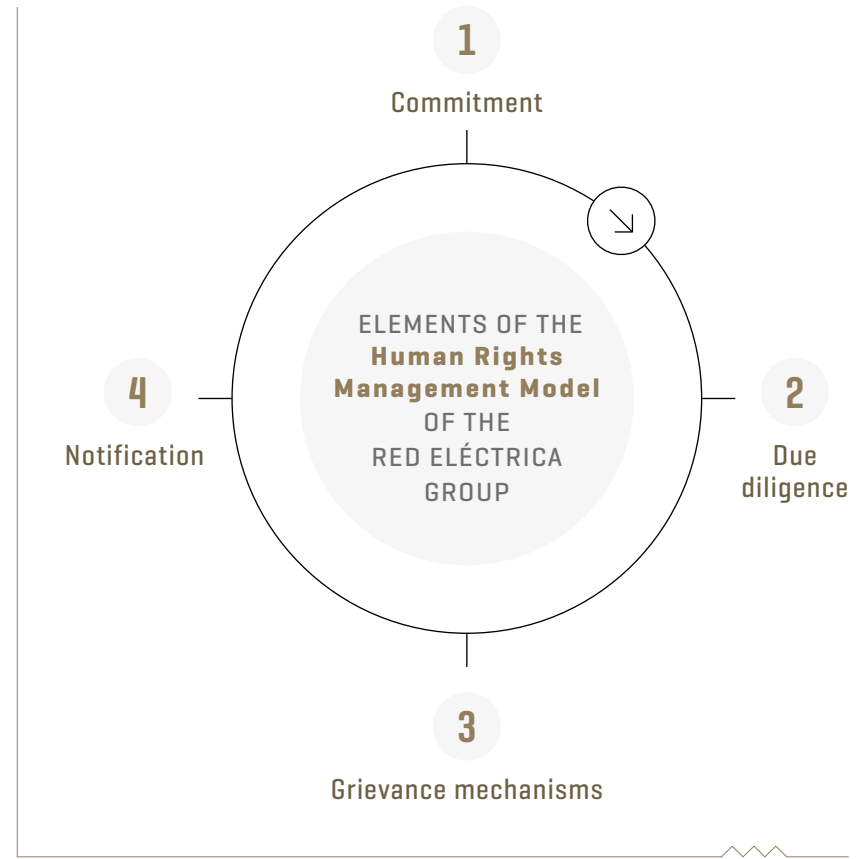
HUMAN RIGHTS
 103-1 / 103-2 / 103-3

Red Eléctrica formalised its Human Rights Management Model in 2017, which has been approved by the Sustainability Steering Committee. The development of this model, which follows the methodology defined by the Guiding Principles on Business and Human Rights of the

United Nations (UN), has had the participation of key organisational units of the Company that ensure a coordinated work effort regarding the respect for human rights.

The model embodies the full scope of the activities of the Red Eléctrica Group, defining commitments and

global grievance mechanisms for the main business activities and geographical areas in which the Group operates.



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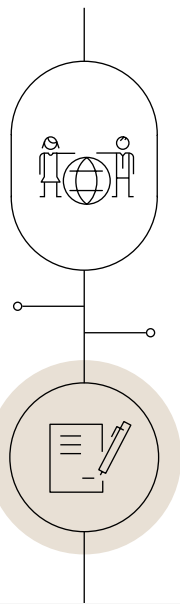
Although the activity of the Company, for the sector in which it belongs, has risks mainly linked to the areas of health and safety of people, working conditions, the supply chain and the impact on communities, the Red Eléctrica Group has control policies and mechanisms that minimise these risks and ensure respect for human rights.

Commitment to human rights
103-1 / 103-2 / 103-3 / 407-1 / 408-1 / 409-1

The Red Eléctrica Group maintains an explicit and public commitment to respect and promote human rights in the undertaking of its activities in all the territories in which it operates, paying special attention to vulnerable groups.

This commitment is included in the corporate values and in the business conduct guidelines established in the **Code of Ethics**. Similarly, the **Group's Corporate Responsibility Policy** establishes the promotion and respect of human rights as one of the basic principles and guidelines, implementing the

Commitment TO HUMAN RIGHTS



BY MEANS OF THE

Code of Ethics, the Corporate Responsibility Policy and the Supplier Code of Conduct

Red Eléctrica's commitment to human rights is reinforced by its membership of the **Spanish Network of the United Nations Global Compact** and its adherence to the ten principles of the Global Compact.

necessary mechanisms to ensure the absence of child labour, forced or compulsory, freedom of association and collective bargaining and the elimination of any practice that may represent a violation of individual or collective dignity.

In the undertaking of these commitments, the Red Eléctrica Group takes into account the internationally recognised principles contained in the Universal Declaration on Human Rights, the International Covenant on Economic, Social and Cultural Rights and the regulations of the International Labour Organisation.

Similarly, with the aim of extending the principles of sustainability

throughout the supply chain, the **Supplier Code of Conduct** of the Red Eléctrica Group establishes the duty of this stakeholder group to respect the principles of the Universal Declaration on Human Rights, and its associated implementing conventions.

WITH THE ACCEPTANCE of the general conditions of contract, all our suppliers undertake to comply with the **Supplier Code of Conduct**, which can be verified through the conducting of social audits.

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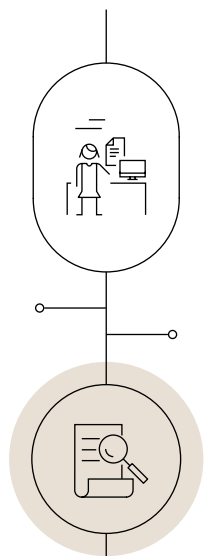
Due diligence process 103-1 / 103-2 / 103-3 / 411-1 / 412-1 / 412-3

Since 2013, Red Eléctrica conducts a **periodic due diligence analysis** to identify the human rights risks associated with its activities, encompassing all the companies of the Group. This analysis is supplemented by an identification of specific risks associated with suppliers through the impact matrix of the supply chain.

In 2017, compliance with 108 recommendations of the Global Compact was assessed, structured in the following areas: labour rights; civil and political rights; economic, social and cultural rights; rights of local communities; and management of the supply chain. The degree of compliance with these recommendations was 99.3%.

⁺ About Grievance Mechanisms on [pg 36](#) and about the *Dígame* Service and ASA on [pg 215](#) of this report.

External AUDITS



Conducted in
32
%
of the total work centres
-
In the head offices and work centres of the northeast and northwest zones

On the other hand, the assurance of the corporate responsibility management system involves auditing all work centres in three-year cycles in aspects related to respect for human rights.

It should be noted that, given the geographical scope of action of the Company, the activities carried out by the Red Eléctrica Group have no impact on indigenous peoples.

Grievance mechanisms

The Red Eléctrica Group makes the Whistle-Blowing Channel available to all its stakeholders as a formal mechanism for responding to enquiries and grievances related to human rights.

Additionally, the Company has other communication channels available to its stakeholders,

where they can share their concerns regarding any breach in this area:

- **Dígame** service that manages the enquiries and suggestions from external stakeholders.
- **ASA** channel (Procurement Support and Helpdesk) for the specific attention of suppliers.

Red Eléctrica has provided specific training on human rights to those responsible for the *Dígame* and ASA services, with the aim of promoting the categorisation of the enquiries received, as well as their subsequent classification and registration. This initiative results in the improved handling of enquiries or grievances received regarding human rights.

Grievances regarding human rights in 2017

Channel	Received	Resolved
Whistle-Blowing Channel	0	-
<i>Dígame</i>	3	3
ASA	0	-

In 2017, the Company organised a training workshop on the implementation of the **Guiding Principles on Business and Human Rights of the United Nations**, managed by the Spanish Global Compact Network specifically for 23 experts from key organisational units.



Communication 412-2

The Red Eléctrica Group updates stakeholders on its performance on human rights issues through the **Sustainability Report**. Similarly, the **Ethics Management Report** is published annually, which includes an analysis of the possible grievances received on this aspect.

Red Eléctrica, as a founding partner of the Spanish Global Compact Network, actively participates in human rights actions, sharing good practices and supporting different initiatives, noteworthy among which is the design of the **online tool for the implementation of the Guiding Principles on Business and Human rights of the United Nations**.

In addition, the Group promotes periodic training and internal awareness campaigns aimed at its employees so that respect for human rights remains integrated into the corporate culture of the Group.

In this regard, in 2017, Red Eléctrica organised a **workshop** on the implementation of the Guiding Principles on Business and Human Rights of the United Nations and has made a 20-minute **'training pill'** on human rights and the Group's management model available to all its employees. In 2017, the training has been completed by 71 people.



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FINANCIAL RESULTS AND ECONOMIC SOUNDNESS



Evolution of results

/103-1 / 103-2 / 103-3

During 2017, Red Eléctrica showed stable growth having obtained solid results and an important strengthening of its main solvency ratios, maintaining a clear

orientation towards operational efficiency and the permanent generation of value.

Key financial indicators

	2016	2017	Δ%
Revenue	1,932.3	1,941.2	0.5
Gross operating profit (EBITDA)	1,486.0	1,519.5	2.3
Net operating profit (EBIT)	1,003.3	1,031.4	2.8
Profit before tax	636.9	669.8	5.2
Non-current assets	9,256.7	9,214.2	-0.5
Net equity	2,920.5	3,093.4	5.9
Operating cash flow after taxes	1,146.9	1,187.9	3.6
Total investment (1)	643.1	510.2	-20.7
Net financial debt	4,949.5	4,791.8	-3.2

(1) Investment in 2016 included 199.8 million euros corresponding to the acquisition of 50% of the Chilean company TEN.

Economic value generated and distributed (Group) 201-1

	2015	2016	2017
Economic value generated	1,992.2	2,014.3	2,065.8
Revenue	1,938.9	1,932.3	1,941.2
Other net profits and losses (1)	53.3	81.9	124.7
Economic value distributed to stakeholders	-1,330.2	-1,336.0	-1,378.0
Employees: personnel costs	-139.6	-145.1	-148.7
Company: Corporate Income Tax (2)	-223.0	-212.2	-220.4
Investment in the community (3)	-6.6	-6.4	-6.5
Suppliers: other operating expenses (4)	-367.5	-356.4	-362.7
Shareholders: dividends (5)	-434.2	-464.6	-497.1
Other Capital providers: net financial costs	-159.3	-151.3	-142.6
Economic value retained	662.1	678.2	687.8
Reserves	172.5	174.0	172.7
Amortisation and depreciation (6)	489.5	504.2	515.2

Note: Data obtained from Consolidated Annual Accounts. (1) Includes: other operating income/net results obtained via equity method/results from divestment of non-current assets (divestitures)/capital subsidies and other subsidies, in accordance with that indicated in the Annual Consolidated Accounts/deferred incomes transferred to the fiscal year's results/works performed by the Company on its assets. In 2017, 1.3 million euros were received from official entities for the construction of electricity facilities. Similarly, the Company has recognised deductions for investments in the Canary Islands for a total of 72.6 million euros. In 2017, 11.8 million euros were transferred to results corresponding to subsidies received by Red Eléctrica de España S.A.U. for the construction of electricity facilities of official entities and deductions for investments. More information in note 12 of the Consolidated Annual Accounts / 201-4. (2) Costs due to Corporate Income Tax. (3) Investments in the community: data obtained by applying the LBG methodology and subsequently subjected to external verification. (4) Procurements and other operating costs (excluding investments in the community). (5) Includes the interim dividend and complementary dividend. (6) Includes: Amortisation / Depreciations (includes mainly provisions for deterioration in asset value).



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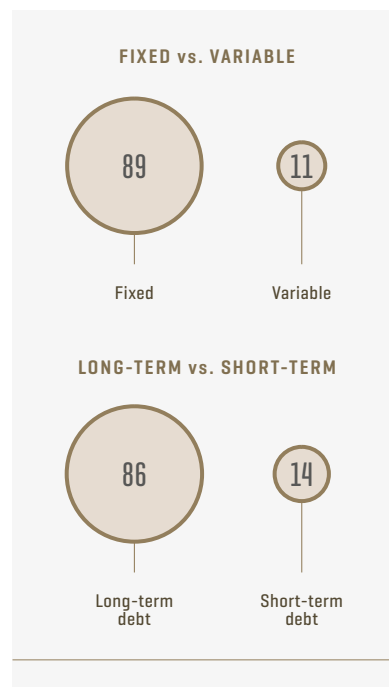
Financial strategy

The financial strategy traditionally followed by Red Eléctrica is geared towards reflecting the nature of the business it carries out, whilst adapting to the legislation in force at each moment.

The transmission of electricity and the operation of the electricity system are very capital-intensive activities, wherein investments mature over long periods. In addition, the remuneration of these assets is for periods of 40 years at rates linked to Spanish long-term government debt. Therefore, our financial debt is primarily long-term and referenced mainly at fixed rates. The net financial debt at the end of 2017 totalled 4,792 million euros, which, depending

on interest rates, can be classified according to the following chart:

Financial Debt Structure %



The classification of the financial debt according to its maturity can be seen in the following chart, where all the debt whose maturity will occur in the next twelve months is classified as short-term.

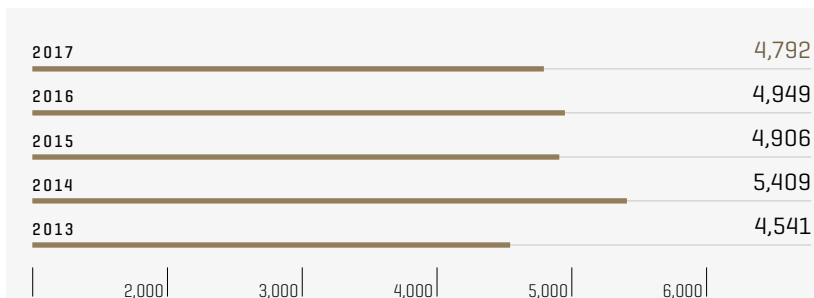
Credit rating

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 Company's strengths.

Evolution of net financial debt

m€



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Shareholder return

STOCK MARKET PERFORMANCE

2017 has been a good year from a stock market perspective. There have been several reasons for the causes of this bonanza, but possibly the main one is due to the good situation that the world economy is going through. Similarly, there have been other elements that have contributed to investing in variable income and these have been among those preferred by investors, the lax monetary policy followed by central banks in the main economic areas, the recovery of the price of raw materials and oil or the good performance of business results have boosted stock indexes.

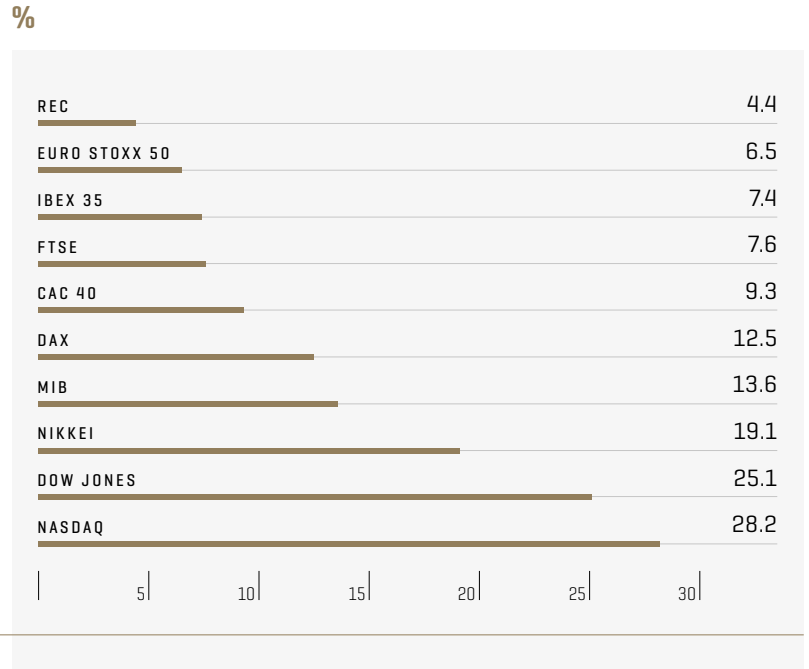
The positive performance of Wall Street has been surprising once again, its main indexes have experienced increases some of which have increased over 20% and the series of records reached throughout the year has been highly significant. In the case of the Dow Jones this happened on almost 70 occasions. In addition, the tax reform approved at the end of 2017 has been another element that has facilitated the good performance of the New York Stock Exchange.

More moderate has been the performance of stock exchanges in other areas of the world. In Europe, however, we have also seen that throughout 2017 the German DAX or the British FTSE have surpassed their previous all-time highs. Nevertheless, increases in the

value of the main European stock markets have been more modest, noteworthy being the

stock market indexes of Milan and Frankfurt, both registering increases of over 12%.

Evolution of Red Eléctrica and the main stock market indexes - 2017



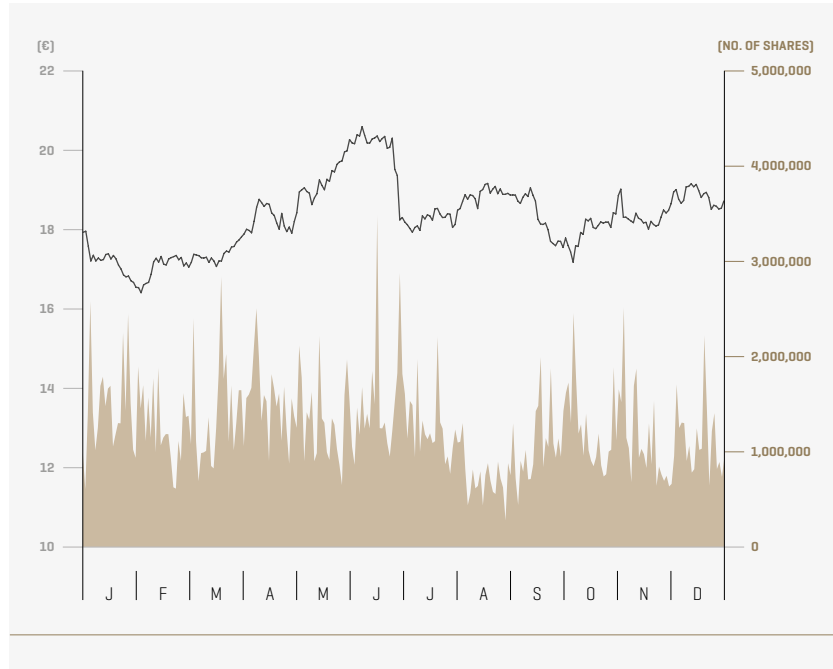
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The performance of the Spanish market deserves special mention as, with an increase in value of almost 20% at the beginning of the month of May, the IBEX-35 was the index that performed best compared to its European counterparts. The progressive deterioration of the political situation in our country, as a consequence of the crisis in Catalonia, reduced the valuation of our stock market to just 7.4% over the year as a whole.

RED ELÉCTRICA'S SHARE

Throughout 2017, Red Eléctrica's share price increased by 4.4%, with this new figure out performing that of most regulated European energy companies. The efforts made by the Company in terms of efficiency, its shareholder remuneration policy and its diversification policy have been valued by the markets in an environment that has been less favourable to companies such as ours.

Share price performance and daily volume



In 2017, direct shareholder return in the form of dividends grew 7% compared to the previous year.

In 2017 as a whole, 596 million shares were traded, representing 1.1 times the Company's share capital. Purchases made in cash in the Spanish continuous market was 10,958 million euros.

Shareholder's Meeting with a charge to 2017 profit, is 0.9188 euros per share. On 5 January 2018, a gross interim dividend payout of 0.2549 euros per share was made, with 0.6639 euros per share pending distribution, as part of a gross complementary dividend.

DISTRIBUTION OF DIVIDENDS

In 2017, the direct shareholder return in the form of dividends increased by 7% over the previous year. The gross dividend proposed at the General

Main stock market indicators 2017

	2017
Share price (in €)	
Maximum	20.770
Minimum	16.330
Year end	18.710
Market capitalisation at close of fiscal year (in M€)	10,123.6
Earnings per share [EPS] (in €)	1.24
Share price/EPS (Nº of times)	15.11
Dividend per share (in €)	0.9188



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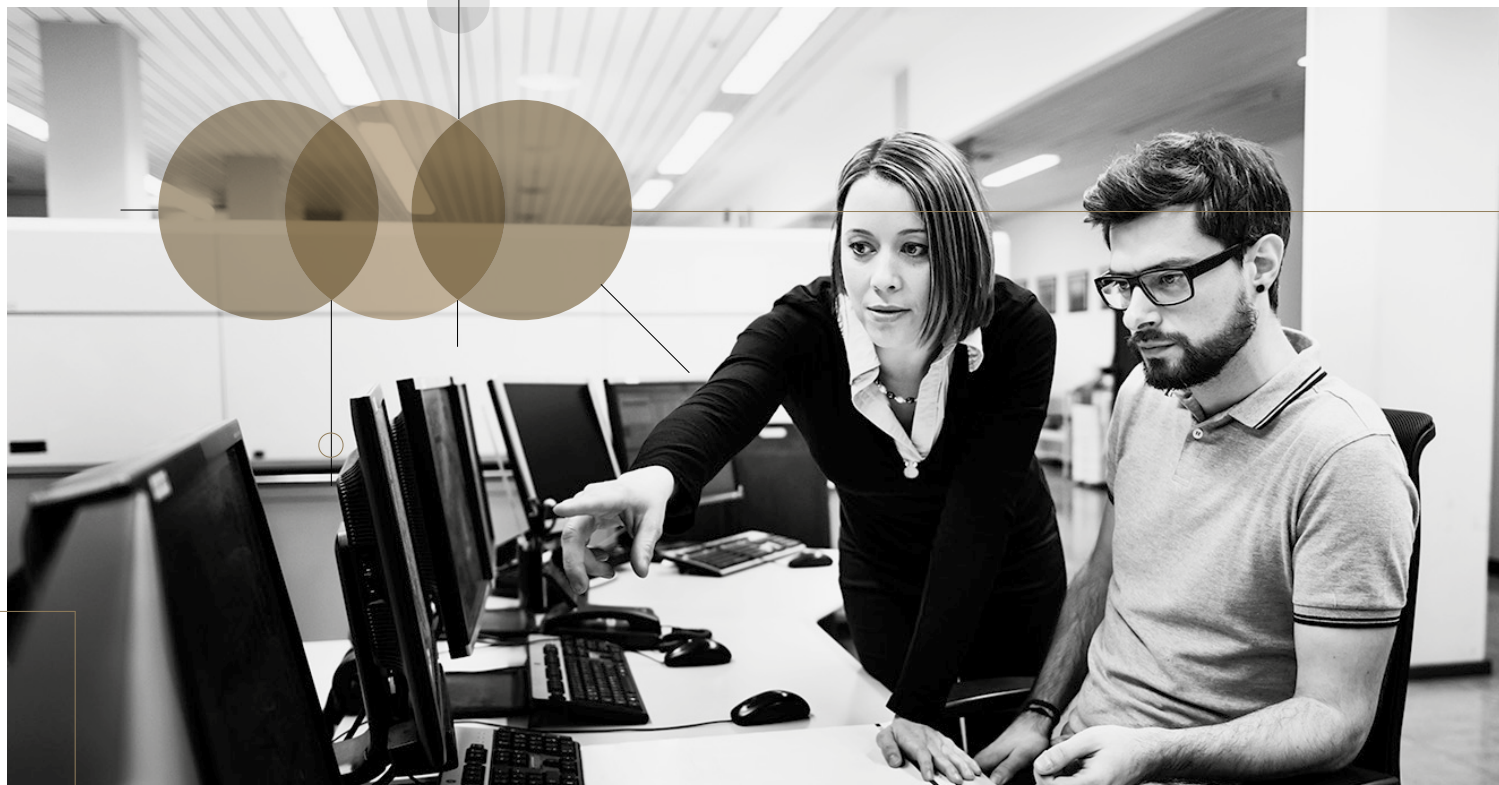


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EMPLOYEES



Stability and quality of employment

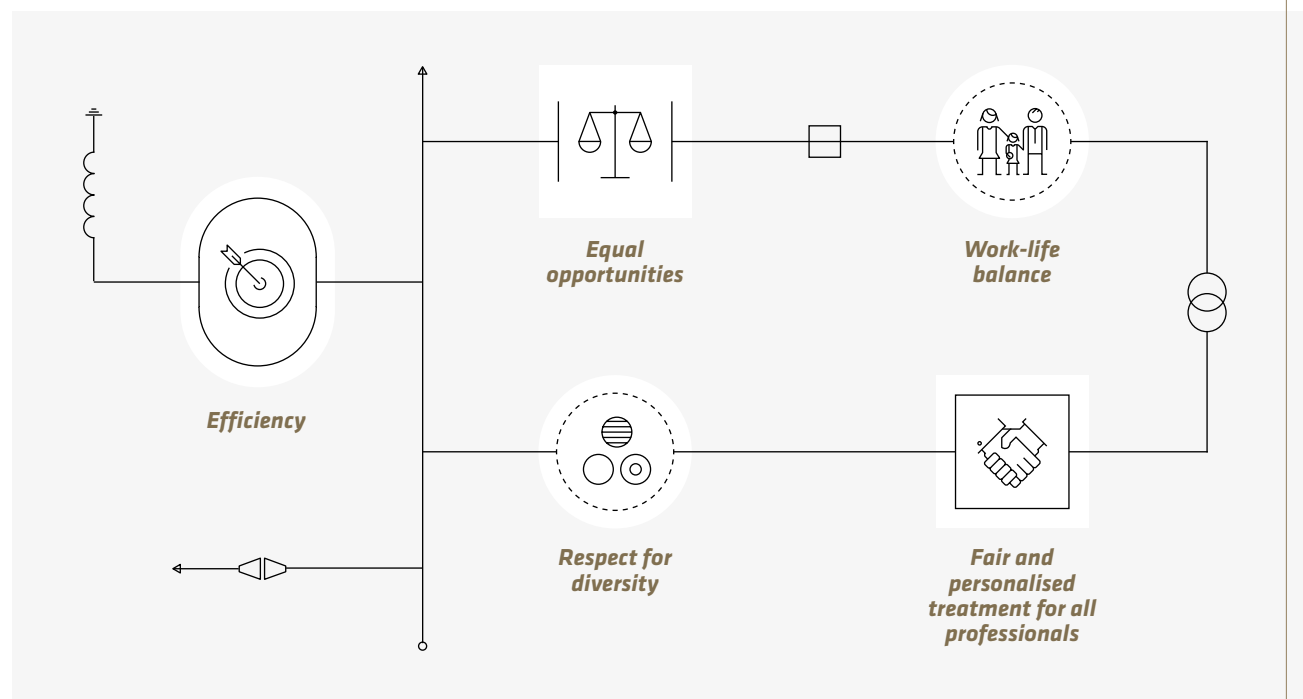
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The Human Resources Master Plan of Red Eléctrica is linked to the Company's strategy and is based on five essential principles that promote an atmosphere of commitment, sustainability and good social climate.

During 2017, the plan was updated with a 2017-2019 horizon structured on four main courses of action:

- Change management.
- Optimisation and simplification of processes.
- Talent management and development.
- Leadership in occupational health and safety: healthy workplace.

PRINCIPLES OF THE HUMAN RESOURCES MASTER PLAN



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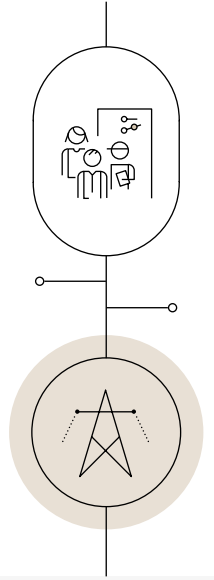
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These courses of action are developed through various key initiatives aimed at enhancing cultural change through people, processes, technology and work spaces as strategic elements for transformation and new ways of working.

Red Eléctrica's ranking

- **Sector leader** in the Dow Jones Sustainability Index [DJSI], having obtained the highest score in the criteria of Human Capital Development and Labour Practices.
- **Ranked 51st** in the Equileap gender equality ranking (top-ranked Spanish company).
- **Ranked 33rd** in the Universum ranking of the most attractive companies to work for.
- **Ranked 30th** in the Merco Talento ranking.
- **Korn Ferry Employee Engagement Award**, which recognises the highest level of employee commitment.

Permanent CONTRACTS

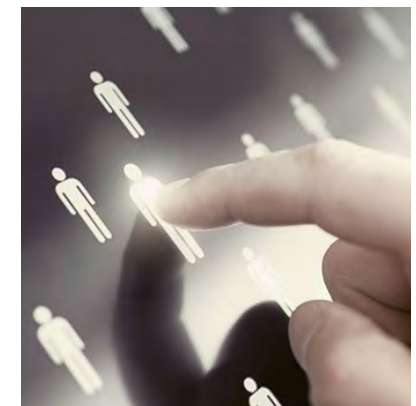


98.3 %

Red Eléctrica offers its employees stable and quality employment

A STABLE, COMMITTED AND HIGHLY QUALIFIED TEAM 401-1

At the end of 2017, the Red Eléctrica Group had a total workforce of 1,815 people, 2.3% more than in 2016. 96% of the total [1,741 people] employed in Spain and 4% in Peru and Chile. However, it should be noted that Red Eléctrica de España is responsible for the core activity of the Group and employs the highest share of the workforce.



Key employment indicators ⁽¹⁾

	2015	2016	2017
Total workforce	1,697	1,682	1,741
Women [%]	23.1	23.7	24.4
Men [%]	76.9	76.3	75.6
Women in managerial positions [%]	20.2	21.8	24.8
People with some type of disability [%]	0.8	0.8	0.8
Creation of net employment [N° of job positions]	15	-15	35
Average age	44	45	45
Average length of service (years)	15	16	16
Undesired external turnover [%] ⁽²⁾	1.6	2.0	2.6
Total turnover [%] ⁽²⁾	2.1	2.8	3.7
Permanent contracts [%]	99.9	99.8	98.3

⁽¹⁾ As of 2017, the REINCAN + REI + REINTEL data is included in the REE and REC companies. Total staff of REE + REC + REINCAN + REI + REINTEL in 2016 1,706 employees.

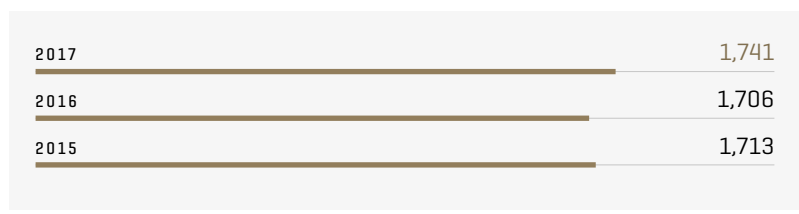
⁽²⁾ Scope of the data REE + REC.

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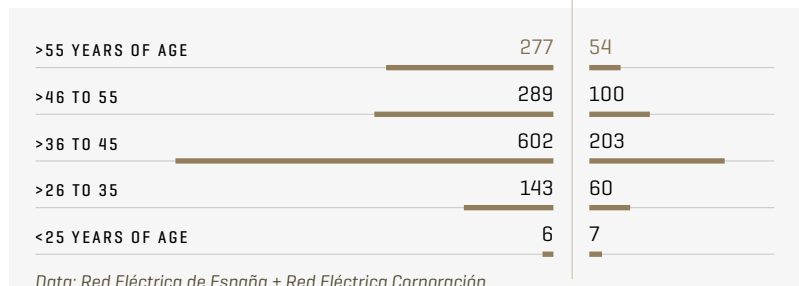
Red Eléctrica offers its employees stable and quality employment (98.3% of the positions are on permanent contracts) and an outstanding professional career development (100% of the appointments to managerial positions have been covered through internal promotion). Similarly, it is committed to employability and functional mobility as a lever for professional growth and development (6.4% functional mobility, more than 100 people).

In 2017, a total remuneration model was defined that includes different elements: economic, financial, intangible and emotional, in a way that facilitates and supports the organisational and cultural transformation and promotes new ways of working in the Group.

Evolution of the workforce in Spain N°



Workforce distribution by age and sex



Data: Red Eléctrica de España + Red Eléctrica Corporación

COMPENSATION AND REMUNERATION

The Red Eléctrica Group works to consolidate, in all companies of the Group, a remuneration model that responds to the following universal principles:

- Internal equity and external competitiveness.
- Coherence with the organisational and development model.
- Offering opportunities for salary progression.
- Highlighting superior performance through recognition.

On this basis, Red Eléctrica's remuneration model for non-managerial staff is composed of monetary elements (a fixed salary within broad salary bands that allow a differentiated salary recognition and an extraordinary bonus that recognises the most outstanding contributions) and non-monetary, that allow the personalised configuration of the remuneration of the professionals.

In addition to the list of products offered such as health insurance, training, life insurance, public transportation card, luncheon vouchers and childcare vouchers, participation in the Company's share purchase plan is also available to employees.



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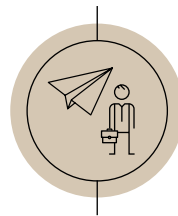
Within the commitment of the Red Eléctrica Group to the mobility and development of the employees, a Guide for International Assignments has been approved that promotes the international mobility of professionals from a perspective of salary progression, promotes internal equity and career development and meets not only the needs of the employee but also those of their family unit.

The management team has a remuneration model that incorporates the principles of internal equity and external competitiveness. The annual variable remuneration assesses the contribution to the achievement of individual objectives related to economic, efficiency, quality and managerial variables (such as corporate responsibility and occupational health & safety). Following the best practices in the market, leadership objectives have been strengthened, which incentivise and link variable remuneration to the leadership model of the management team, as well as to the Company's strategy.

Within this model, senior management has a deferred variable whose purpose is to



Guide for international ASSIGNMENTS



INTERNATIONAL MOBILITY of professionals

With salary progression, internal equity, career development and meeting the needs of the family unit.

encourage maximum motivation and commitment to the achievement of the Company's strategic plan.

The remuneration of new employees is established depending on the training and experience provided within the previous schemes. These criteria are applied universally and equally to both men and women. New incorporations with little experience have a differentiated system of salary progression

according to their growth and professional development. This enables the internal equity within the Group to be safeguarded and the new incorporations to enjoy career opportunities.

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Diversity / 103-1 / 103-2 / 103-3

For Red Eléctrica it is essential to promote a quality working environment based on ethical conduct, respect, diversity and equality and this is a commitment integrated into the corporate culture and the internal policies of the Company. In order to ensure that the commitment to these

principles is fulfilled, Red Eléctrica develops various initiatives aimed at guaranteeing a discrimination-free people-focused environment geared towards their social, working and personal development when faced with cultural barriers and stereotypes.

Principles regarding actions in the field of diversity and equality

- Equal Opportunities in employment.
- Promotion of women into positions of responsibility.
- Protection against gender-based violence.
- Protection against moral, sexual and gender-based harassment.
- Coexistence between generations and adapting to change.
- Inclusion of professionals with disabilities.
- Integration of people at risk of social exclusion.

Recognitions 2017

- Presence in the 'Top 200' in the '2017 Gender Equality: Global Report & Ranking' published by Equileap, in which only six Spanish companies are included, with Red Eléctrica being the highest ranked of these 6.
- Recognition as a **company involved in the commitment to gender equality** granted by the General Directorate for Women of the Community of Madrid, the European Social Fund and the Association of Employers of Alcobendas- AICA.

Among the actions carried out in 2017, noteworthy is the deployment of initiatives associated with the action plan regarding the age management model and the disability management model, both approved in 2015. Also noteworthy is the progress made in the definition of a new comprehensive model of diversity that encompasses and promotes the undertaking of different initiatives on gender, age and disability.

GENDER EQUALITY AND EQUAL OPPORTUNITIES

Red Eléctrica carries out its activities committing itself to gender equality through its Code of Ethics, the Protocol for the Prevention of Workplace, Sexual and Gender-based Harassment and a specific plan drawn up in conjunction with social

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representation, which includes a set of actions aimed at promoting equality in all areas (selection, recruitment, promotion, training, remuneration, communication and awareness), as well as the monitoring of the indicators to measure the progress of the defined objectives.



Evolution of women %



The percentage of women in the Red Eléctrica workforce increased to 24.3% [23.7% in 2016]. Similarly, the number of women in managerial positions has increased for yet another year, reaching 25.9% at the end of 2017 [21.8% in 2016]. The results exceed the targets foreseen for 2017 [23.7% of women in the workforce and 24.3% of women in the management team].

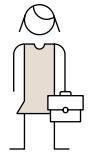
GENERAL DIRECTORATE OF WOMEN of the Community of Madrid, the European Social Fund and the Association of Employers of Alcobendas - AICA, have recognised the support of Red Eléctrica in 2017, as a company involved in the commitment to gender equality.

Red Eléctrica de España has renewed the **Corporate Equality seal** granted by the Ministry of Health, Social Services and Equality.

Red Eléctrica offers the same professional development opportunities for both men and women. In this regard, the actions carried out in favour of female professional development has led to 83.3% of the new appointments to managerial positions being taken up by women.

EQUAL OPPORTUNITIES

83.3%



of new appointments to managerial positions have been women



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As for the indicator that measures the equality of opportunities in promotion (men/women), in this year it stood at 1.28 surpassing the target of 1.20 set for 2017.

AGE MANAGEMENT

One of the key actions in terms of diversity in 2017 was the deployment of the Age Management Model. This Model responds to the challenge in which we find ourselves regarding an ageing population and represents an important advance in our commitment to generational diversity.

In this regard, in 2017 a series of multidisciplinary actions (occupational health & safety, talent

MAIN INITIATIVES FOR THE PROMOTION OF EQUALITY

AWARENESS AND TRAINING

Internal awareness campaigns and access to a training course on equality for all employees on the corporate intranet.

FORUMS AND WORKING GROUPS

Collaboration in various forums and working groups on subjects such as the Gender Tension Gap Study, promoted by IE Business School, or the study of initiatives and good practices on issues of gender equality, work-life balance and disability carried out jointly with ENAGAS and CLH. The experiences and results of this study will also be incorporated into the female leadership observatory.

ADHERED TO INITIATIVES AND AGREEMENTS WITH THE MINISTRY OF HEALTH, SOCIAL SERVICES AND EQUALITY

- Agreement to promote the balanced participation of women and men on boards of directors.
- Collaboration Agreement to promote a more balanced participation of women and men in positions of high responsibility.
- 'Network of companies for a society free of gender violence', collaboration agreement.
- Participation in the Promociona Project that promotes training and professional development as a strategy for female access to managerial positions.
- Signing of a General Protocol for the design, implementation and assessment of the blind curriculum vitae for personnel selection, with the office of the Secretary of State for Social Services and Equality.

DELPHI METHOD FOR THE VALIDATION OF THE GENDER PERSPECTIVE IN THE INITIATIVES OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

Participation in this research project, which is being carried out by the University of the Basque Country in collaboration with the Institute for Women and Opportunities (IMIO) of the Ministry of Health, Social Services and Equality.

M + 50

Participation in the 'M + 50' programme of the Ministry of Social Affairs of the Community of Madrid, for the promotion of the employability of professional and managerial women over the age of 50.



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and organisation] was initiated, integrated into the life cycle of the employee. The initial steps for its implementation (shown below) have already been carried out:

- generational change programme.
- temporary mobilities of specific positions.
- analysis and planning of staff according to age.

The implementation of actions for the groups linked to positions with greater risks associated with age is foreseen for 2018.

On the other hand, Red Eléctrica has joined the Observatory of Demography and Generational Diversity, coordinated by the Instituto de Empresa (IE), whose objective is to conduct a study on generational diversity.

INCLUSION OF PEOPLE WITH DISABILITIES

During 2017, progress was made in the action plan associated with the disability management model. For its development, Red Eléctrica has the collaboration of the Adecco Foundation and maintains important

During this year, more than 40% of the workforce has participated in specific training activities regarding disability.

contracts for the procurement of goods and services with Special Employment Centres.

The involvement of the management team and the work carried out in raising awareness and increasing the employees' understanding of disability has been instrumental in making headway with the objectives of the plan. Furthermore, noteworthy are the **Corporate volunteering initiatives** which have helped raise the profile of inclusion and laid the foundations for a new line of support for diversity that will be enhanced in the Multi-Year Corporate Volunteering Plan 2018-2020.

In 2017, 2.6% of the equivalent employment of people with

disabilities was achieved. Of this percentage, 0.8% corresponds to direct employment and the rest to LGD agreements (General Law on the Rights of People with Disabilities).

The procurement of goods and services offered by Special Employment Centres has helped create employment equivalent to the hiring of 30 people with disabilities. Support for the Adecco Foundation's 'Jobs for All' Programme has continued, through which 3,241 jobs have been created for people with some form of disability, and 8,564 people with disabilities or at risk of exclusion have been assisted.

MAIN ACTIONS REGARDING DISABILITY



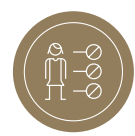
Creation of employment: procurement of goods and services from Special Employment Centres



Corporate volunteering: support for the 2018-2020 diversity plan



Plan Familia: care programme for employees whose family members have some form of disability



Plan Aflora: support for employees who may qualify for the disability certificate



Employee awareness campaigns



Support for the 'Jobs for All' Programme of the Adecco Foundation




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Talent management / 103-1 / 103-2 / 103-3 / 404-2

The global talent management model, aligned with the Company's strategy, is one of the four essential pillars of the Human Resources Master Plan. In order to attract, nurture, develop, train, transform and retain talent and exchange knowledge, the Company follows a systemic approach regarding the following areas: employment (recruitment, selection and internal mobility), training (technical and skills training), development (programmes for professional growth), knowledge management and leadership, and performance assessment.

KNOWLEDGE MANAGEMENT AND LEADERSHIP MODEL

The transmission of key knowledge regarding the Company and the involvement of leadership figures are levers that promote commitment

and facilitate learning that ensures the employability of people. The leadership model (competencies, assessment, remuneration and the development plan) is deployed through the Human Resources Master Plan.

The leadership model establishes the leadership figure as:

- a reference in the organisation,
- a promotor of Company values and
- as a developer of teams and a driver of change.

In 2017, competency development programmes based on an agile, flexible leadership style oriented towards the creation of collaborative and participative environments were initiated. Within the LideraT programme, customised

In 2017, 100% of Red Eléctrica's appointments to managerial positions were covered through internal promotion.



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The Leadership and Strategy Institute, designed in 2017, aims to detect **key knowledge and drive the Company's cultural transformation with a new leadership approach.**

actions were developed, focused on the integration and transition of people who during the year have taken up new or different management positions within Red Eléctrica.

Similarly, in 2017 the Red Eléctrica Leadership and Strategy Institute was designed with the objective of promoting the Company's cultural transformation with a new leadership approach, as well as detecting key knowledge for the Company.

On the other hand, to further deploy the leadership model, work has continued on the development programme aimed at non-managerial personnel, holding specialised or technical degrees and who coordinate the work of functional teams.

The **knowledge management model** is used to channel and manage new and existing knowledge and facilitates the generation of new knowledge that enables us to innovate. In 2017, the deployment of the model initiated the previous year continued, sharing its content with all employees, as well as the White Paper on knowledge management, and the experience acquired with the implementation of the pilot project within the Transmission Management Department was communicated throughout the Company.

This model is linked to the Company's Strategic Plan, the Human Resources Master Plan, the digital transformation project and integrates its actions within the scope of the Red Eléctrica Campus.

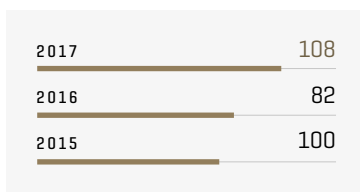
TRAINING AND DEVELOPMENT

In 2017, work was carried out on the design and optimisation of the training model, aligning the contents with the three levers of the Company's Corporate University [Red Eléctrica CAMPUS]: business knowledge and technical training; strategy and leadership; and cultural transformation and innovation.

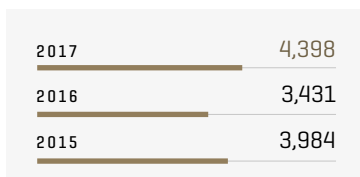
A key element, within the global talent management model, is the learning strategy and its standardisation. This strategy is centred around:

- A set of principles.
- A methodology [70-20-10].
- Incorporation of technological advances [virtual classroom for on-line training].
- A series of standard professional development roadmaps.
- An assessment system that contemplates different levels: satisfaction regarding training; acquired and applicable knowledge and impact of the training, culminating in the calculation of the overall ROI and per programme.

Training hours per student



Investment in training per employee €



Note: data regarding national subsidiaries: REE + REC + REINCAN + REI + REINTEL.

The various training and development programmes are grouped into four areas: technical training, skills development, corporate training and training for specific groups.

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In 2017, Red Eléctrica provided more than 177,000 hours of training to employees of all professional levels, representing an average of 108 hours of training and an investment of 4,398 euros per employee. 18% of the total training hours were aimed at promoting the employability of workers in technical areas, languages, skills and abilities; not directly related to the functions of the job currently being performed and more than 1,300

hours to strengthen the leadership of the management team.

Among the various training activities carried out during 2017, the following are noteworthy:

- Development of the Bank of Experts programme to apply and disseminate knowledge in the work environment and to train other employees as internal trainers.

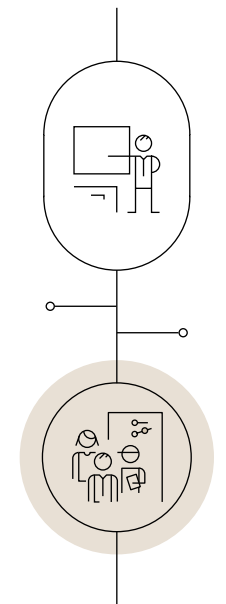
- Hands-on training in an electricity substation with actual facilities which are out of service.
- Development of hands-on training, in the Company's facilities, between control centre operators and future operators responsible for local manoeuvre operations.
- Pilot training project for virtual reality geared towards local training regarding operation.
- First editions of the courses of the electricity measurement system (SIMEL) with the participation of 16 distribution companies and 16 electricity marketers.



It should be noted that internal training is a lever for the development and transmission of essential knowledge in Red Eléctrica. 9% of employees, specialists or experts with relevant knowledge in their respective areas, participate as internal trainers.

Among the objectives for 2018, noteworthy is the development of the training project regarding IT technology aimed at promoting cultural change. Similarly, technological innovation applied

Training OF EMPLOYEES IN 2017



More than

177,000 HOURS

An average of 108 hours per employee

Investment of 4,398 euros per employee

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to professional development and learning will be promoted: design of simulators, new virtual courses, recording of technical operational sequences for future reference.

RED ELÉCTRICA CAMPUS - CORPORATE UNIVERSITY

In 2017, the Red Eléctrica Campus project was completed, as the Company's corporate university, and new facilities were set up in the Madrid Technology Park in Tres Cantos. The Campus is equipped with a modern infrastructure and advanced technology and applies an innovative training methodology.

The new Campus constitutes a significant disruptive approach regarding previous internal training centres, from having a mainly technical approach compared to a comprehensive approach and its design has been carried out under the Corporate Learning Improvement Process (CLIP) accreditation tool of the European Foundation for Management Development (EFMD).



REE Campus Motto: Creer, Crear y Crecer (C³) [Believe, Create and Grow]

Red Eléctrica Campus is structured around **three fundamental pillars** called institutes with the capacity to continuously transform and learn through their permanent contact with the Company and the global environment:

Cultural Transformation and Innovation Institute, oriented to the development of the necessary competences to drive Red Eléctrica's organisational transformation through its professionals with special emphasis on culture and innovation.

Strategy and Leadership Institute, responsible for the deployment of the leadership model required to manage the change that is set by the strategy of the organisation.

Business Knowledge and Technical Training Institute, linked to the core business and responsible for the training of specific skills necessary to achieve the business objectives of the Red Eléctrica Group.

The mission of the Campus is to serve as a platform for the deployment of the strategy, values and culture of the Red Eléctrica Group that facilitates the achievement of business objectives.

It also acts as a meeting space that fosters an environment that enables employees to learn more about and better understand knowledge obtained from the Company's stakeholders.





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Performance interviews continuously evaluate all employees of Red Eléctrica, management and non-management teams, on competences, commitment and contribution.

ASSESSMENT AND MANAGEMENT OF PROFESSIONAL DEVELOPMENT 404-3

The assessment model of Red Eléctrica is oriented to facilitate the professional and career development of employees, as well as to manage their performance in an efficient way.

All employees of Red Eléctrica, the management team and non-directors, are continuously assessed on competences, commitment and contribution. Through the performance interview, the corresponding assessment is transmitted, and improvements are agreed between collaborators and line managers.

In 2017, an analysis and revision of the current model was carried out, with the participation and involvement of different internal cross-cutting working groups, with the aim of promoting a culture of development and recognition of professionals and teams, which guides and motivates a continuous improvement of their performance and that drives the evolution of the Red Eléctrica Group.



Based on the results of this analysis, in 2018 the implementation of a new model is foreseen that will emphasise its approach to development, as it is based on continuous feedback and will promote internal dialogue as a basis for interpersonal relationships, with a greater level of cross-cutting, transparent and frequent communication.

MOBILITY MODEL

The main objective of the internal mobility model is to strengthen the capabilities of the employees of the Red Eléctrica Group, increasing their versatility and employability, in order to respond to the needs of the business in the short and medium term.

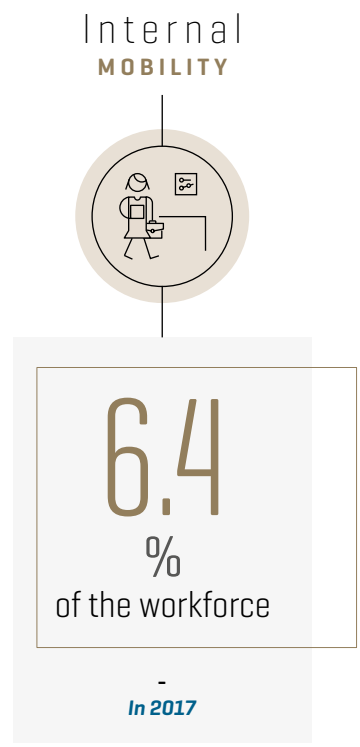
In 2017, an internal mobility plan was integrated into the

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Talent Management Model and the Professional Development Model. The associated policy has been reviewed and communicated through internal channels, incorporating a tool (LinkRED) that can be accessed by 100% of the employees to share their experience and interests regarding the areas of professional development and mobility, valuing their knowledge and experience, as well as sharing their personal and professional interests. The implementation of this tool will be consolidated throughout 2018.

One of the key principles of this mobility plan is its voluntary and proactive nature, arising from the opportunities generated by the Company's needs, or from personal interests and motivations

One of the key principles of this mobility plan is its **voluntary and proactive nature.**



COLLABORATION WITH THE EDUCATIONAL SECTOR 404-2

The training programmes for young graduates are a firm commitment that Red Eléctrica has with society. The objective of these programmes is to provide qualified professionals with access to the labour market.

Throughout 2017, 140 people participated as interns in different units of the Company. From the outset, these people have counted on the support of a tutor who has accompanied them throughout the period of their stay in the Company providing professional guidance and ongoing support.

To promote the internships of students in post-secondary higher education (FP - *Formación Profesional*), Red Eléctrica has been actively involved in the creation of a **professional training programme for the Advanced Technical Qualification for Power stations**, within the **FP Dual system**. This initiative has as its objectives: to have professionals of this advanced technical qualification for their

immediate incorporation into positions of technical maintenance specialists, to provide the sector with trained professionals with the know-how of Red Eléctrica and therefore increase the employability of young people for their incorporation to the industrial fabric.

In 2017, the first edition of this programme was held, consisting of three courses, 50% of the second course will take place at the Red Eléctrica Campus and will be taught by the Company's technical experts.

FP DUAL SYSTEM

First edition of the programme for the Advanced Technical Qualification for Power Stations.



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Dialogue and transparency

INTERNAL COMMUNICATION

Red Eléctrica considers internal communication instrumental to sharing the mission and goals of the Company, involving employees in the various projects and improving the working climate by increasing their pride of belonging.

In 2017, the internal communication model enabled the development of the criteria framework for the effective development and execution of internal communication actions in the various companies of the Group. The planning of these actions, requested by different units, has enabled efforts to be optimised and messages to be structured at all times.

Top-down communication has been reinforced this year through the incorporation of leadership objectives, linking them all to communication milestones [disseminating the functions handbook, communicating the Comprehensive Corporate Security Management Model and involving the management team in the climate survey for the improvement of the overall satisfaction of employees].

In addition, work has been carried out to improve communication as a competence of the management team with the initiative known as 'REE Leaders'. Also, a more innovative focus has been proposed regarding teamworking so that attendees in the management team meetings have a greater level



of involvement both before and during the meetings.

Among the actions planned for 2018, noteworthy is the design of actions aimed at supporting change management which has been defined as one of the pillars of the Human Resources Master Plan.

DIALOGUE TOOLS AND CHANNELS

The breakfasts with the CEO enable the senior executive not only to foster greater contact with employees, but also to exchange information about the Company's activities. In 2017, 3 breakfasts were held in which 29 employees attended.

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'Positive current' is a new cultural programme to encourage the participation of employees in cultural, social and leisure activities.

As part of the various internal channels, new collaborative tools were launched on the intranet (polls and Q&As) that seek to encourage participation and dialogue among all users as a tool to foster collaboration and the generation and exchange of knowledge.

Similarly, during 2017 work was carried out on the design of action plans arising from the internal communication survey carried out in 2016, in which 51.9% of the workforce participated.

SOCIAL CLIMATE

Knowing employee satisfaction is a key element of Red Eléctrica's commitment to people. The 2017 climate survey, launched for the first time to all companies of the Red Eléctrica Group, offers a global vision of the organisation and allows for segmented results that help to identify strengths and areas for improvement for each of the companies. This survey has been developed with a methodology and

approach oriented to the analysis of the 'Sustainable Commitment', which has included the following fundamental elements of the working climate: individual well-being (physical, interpersonal and emotional), rational and emotional engagement and organisational support. In 2018, the **action plans** arising from the results obtained will be defined.

SOCIAL DIALOGUE 102-41 / 103-1 / 103-2 / 103-3 / 402-1

Red Eléctrica guarantees its employees the right to union-affiliation, association and collective bargaining within the framework of existing labour laws and the applicable Collective Bargaining Agreement.



In 2017, work continued on the implementation of the 10th Collective Bargaining Agreement of Red Eléctrica de España, which entered into force on 1 May 2014. The expiry date of the current Agreement (31 December 2017)

has been taken into account during the meetings between the Workers' representatives and those of the Company regarding negotiations for the next Collective Bargaining Agreement.

WORKING CLIMATE SURVEY 2017





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Communication with the social representation: 19 meetings within the different established committees and the creation of specific collaborative spaces on the intranet.

In any event, in 2017 the application of the principles that inspired said Agreement continued, that is:

- efficiency and productivity.
- flexibility and sustainability.

The Company maintains a close-knit communication that is both accessible and flexible with the social representation, which allows the dialogue between both parties to be fluid. As an additional

measure regarding communication with the social representation, two collaborative spaces on the intranet were created in 2017 in which the relationship with the workers' representatives is managed. One of them is earmarked for the committees of the Agreement and the other for the various Company committees that exist in the organisation. During 2017, a total of 19 meetings were held within the different committees foreseen under the 10th Agreement.

The Collective Bargaining Agreement of Red Eléctrica de España covers the majority of the workforce, excluded from its scope are: the management team [6.67%] and employees who voluntarily and reversibly accept the proposal of the management of the Company for exclusion from the Collective Bargaining Agreement [1.19%]. However, social agreements are universally applicable.

In 2017, 16 grievances [legal grievance cases against REE S.A.U.] on labour practices received through formal mechanisms were managed. All of these grievances were addressed during the year, 6 are pending resolution, due to the corresponding appeals, and 10 have been resolved.

Continuing with the positive trend of previous years, there have been no cases of discrimination in the Company during 2017. As a consequence, it has not been necessary to apply corrective measures within the same period.



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Notification of organisational changes is carried out pursuant to current legislation. The organisational changes which entail the geographical mobility of employees are communicated with thirty days' notice, to both the worker and the social representation. In all cases, a consultation process is carried out.

As for substantial modifications to the employment contract, in the case of changes to an employee's contract, these shall be communicated fifteen days in advance to both the affected worker and social representatives. If it concerns company-wide changes, a consultation period will be opened with legal representatives which may be replaced by a mediation or arbitration procedure.

Furthermore, the 10th Red Eléctrica Collective Bargaining Agreement includes specific working schemes, such as the special shift-working scheme or that of flexi-time. In reference to the latter, legislation establishes different notification periods for the carrying out of work on non-working days or at night. In this regard, it is important to note that the agreement foresees penalties for the Company in the event of the cancellation of work scheduled for non-working days.



COMMITTEES CONTEMPLATED WITHIN THE 10TH COLLECTIVE BARGAINING AGREEMENT

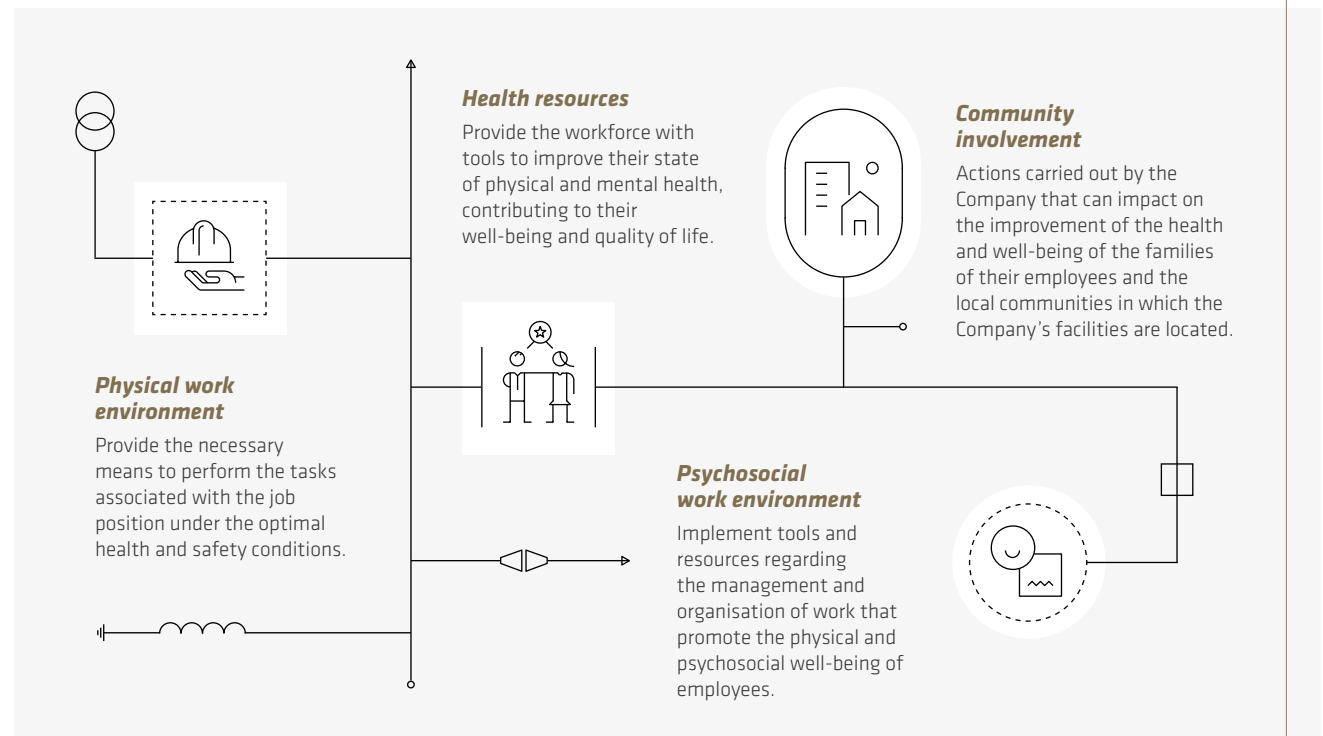


Red Eléctrica - a healthy workplace

/ 103-1 / 103-2 / 103-3

Red Eléctrica promotes, with the commitment and leadership of the management team, the best practices in occupational health and safety and well-being. The 'healthy workplace' model, a strategic pillar of the Human Resources Master Plan and a key element for the promotion of occupational health and safety, is based on four main cornerstones.

HEALTHY WORKPLACE MODEL / PRINCIPLES



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For the second consecutive year, Red Eléctrica has obtained the **Runner-up prize in the Naos Awards** (initiative of the Ministry of Health and Consumer Affairs).

The Action Plan associated with the model, revised with a 2016-2019 horizon, aims to consolidate Red Eléctrica as a leading company in good practices regarding prevention. This plan is structured on three main courses of action:

- a culture of prevention.
- training and skills of people.
- operational control of the work undertaken.

For each of the above various actions and objectives are established. In 2017, noteworthy is the implementation of the prevention plan associated with the results of the psychosocial risk assessment carried out in 2016. This plan has been launched with a specific communication programme aimed at the entire workforce, as well as through actions for the

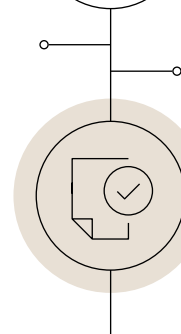
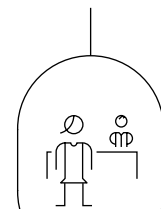
development of competencies, leadership, team cohesion and integration plans, which have a direct impact on emotional / psychosocial well-being.

In addition, in 2017 work was carried out on the alignment of the policies of the companies of the Group in matters of occupational health and safety. Nationally, all the activities carried out have an equal impact on all companies in the Group. Internationally, an analysis and a diagnosis of the situation of Peruvian companies of the Group has been carried out, and an action plan has been designed to implement the healthy workplace model.

THE PROMOTION OF HEALTH

The promotion of health at work is for Red Eléctrica a commitment that is evidenced internally through the

Absenteeism INDEXES



Reduction in the absenteeism indexes of

2 %

In cases linked to common illnesses

various campaigns, implemented over the years, and also externally with the recognition granted by different entities and organisations that position the Company as a benchmark in this field.

In addition, on an ongoing basis Red Eléctrica carries out preventive monitoring of the health of its workers through an in-house medical service, responsible for monitoring employee health through periodic medical examinations and healthcare consultations. Thanks to the preventive measures applied, no incidence or risk of certain occupational or work-related illnesses has been identified. / 403-3

RED ELÉCTRICA

received recognition from the Spanish National Institute of Safety, Health and Well-being at Work for its 'Best Practices for the Promotion of Health in the Workplace' model and has won the **Ágora Bienestar Award 2017**



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In 2017, health campaigns were extended to more work centres and to other groups.

MAIN CAMPAIGNS FOR PREVENTION AND HEALTH PROMOTION



Medical examinations.
Medical and nursing consultation



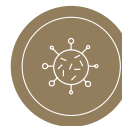
Healthy nutrition



Physical examinations



Promotion of physical activity



Prevention of cancer:
breast, colon, prostate



Sleep disorders



Eye health promotion



Psychosocial risks:
emotional fitness and mindfulness workshops



Flu vaccinations



Stress management

Health campaigns respond to needs previously identified and whose main objective is the incorporation of healthy lifestyles. In 2017, previous campaigns continued, extending them to more people from other work centres and other groups. Among the various campaigns, this year we should highlight the physical examination programme, evaluating different parameters and their impact on general health. With the results obtained, an individualised improvement plan is proposed. Among the actions planned for 2018, noteworthy is

the creation of a **wellness space** in the Company's head office.

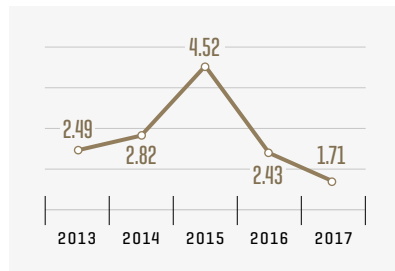
PHYSICAL WORK ENVIRONMENT

For Red Eléctrica, the prevention of occupational risks constitutes a differentiating element and an indispensable requirement to guarantee the health and safety of employees and collaborators.

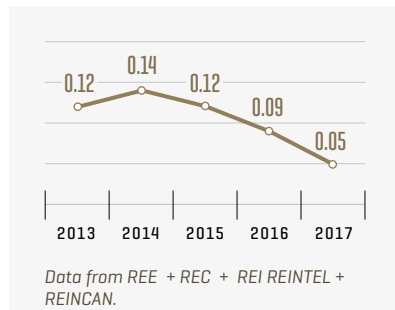
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In this regard, Red Eléctrica has a strategy and a specific action plan that promotes best practices in the field of occupational health and safety risks during the execution of activities and work in its facilities. Its objective is to comply with legal requirements; train, inform and make everyone

Accident Frequency Rate / 403-2 (EMPLOYEES)



Accident Severity Rate / 403-2 (EMPLOYEES)



aware of the obligations and responsibilities, and seek the full commitment of the entire organisation for its fulfilment.

To minimise the risks involved in the construction and maintenance of electricity infrastructure, special emphasis is placed on training, raising awareness, consultation and participation (OHAS Committee, internal audits, working groups), improving safety behaviour and measures during the works carried out both by own personnel as well as external staff (contracted).

In terms of risk prevention, the continual monitoring of work and activities of greater risk through safety inspection programmes, is key to achieving the high levels of safety required by Red Eléctrica. In this regard, in 2017, **13,000 safety inspections** were carried out in works in facilities, which involved 2,654 corrective actions, of which **97%** were resolved.

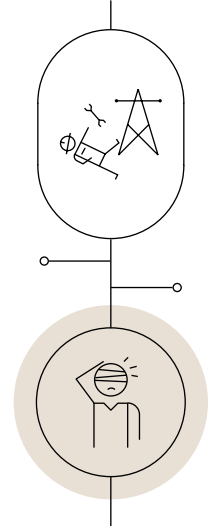
The measures taken in the Occupational Health and Safety Improvement Action Plan that have been implemented since 2016,

the increase in the control of work through internal inspections and audits, as well as the tightening of controls regarding compliance with Occupational Health and Safety measures carried out on all stakeholders, together with the improvement in the training and awareness of the intervening agents, has enabled a significant improvement in accident rates for both our own staff and that of our suppliers.

There was an improvement in the main accident indicators in Red Eléctrica for both Company employees and contractors, with the frequency and severity rates in 2017 being reduced by **29.6%** and **44.4%** respectively compared to 2016.

The results exceed the objectives foreseen for 2017 (0.15 severity rate and 3.52 frequency rate).

Significant reduction IN ACCIDENT INDICATORS [regarding employees]



29.6%
in the frequency rate

44.4%
in the severity rate

Compared to 2016



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The number of training hours in occupational health and safety has doubled compared to 2016.

Training hours in occupational health and safety

2017	15,841
2016	7,145
2015	5,850

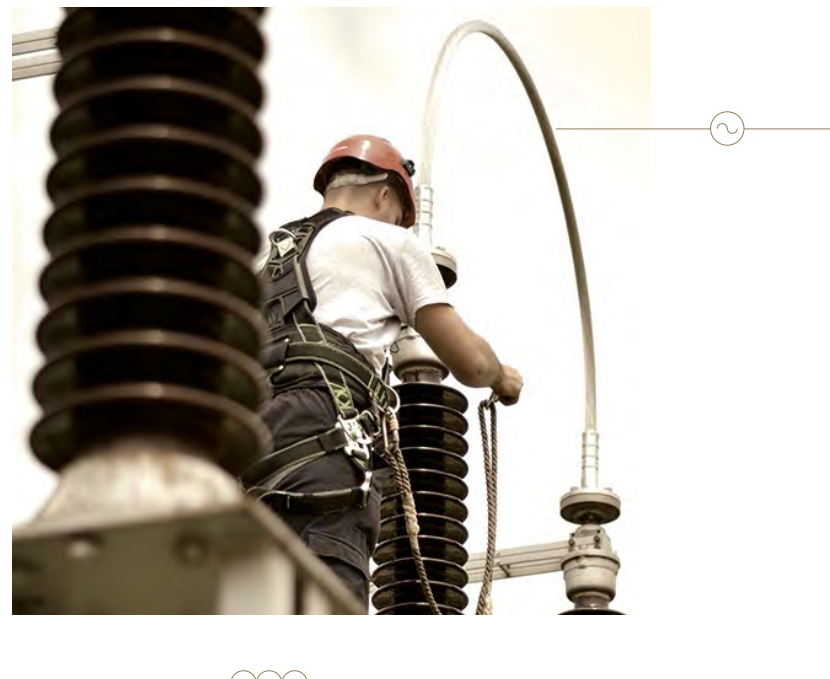
TRAINING AND AWARENESS 404-1

Red Eléctrica considers training and awareness in the field of occupational risk prevention essential to reduce accidents and to safeguard the health and safety of all its personnel. During 2017, a total of **15,841 hours of training** in this field were given. Of these hours, 43.6% were earmarked for specific training regarding electrical risk.

CONSULTATION AND PARTICIPATION 403-1 / 403-4

Red Eléctrica de España has an Occupational Health and Safety Committee whose composition and functions are set out in Chapter 7 of the 10th Collective Bargaining Agreement.

This Committee is a joint and collective body set up for regular and periodic consultation regarding the Company's actions on the prevention of occupational risks. The Committee consists of six representatives nominated by the Company and six prevention delegates chosen



from representatives of the workers, representing 100% of the employees. In addition, the Company's Risk Prevention Service experts attend the meetings of this Committee.

Meetings are held on a quarterly basis (in accordance with Law 31/95 on the prevention of occupational risks), but also may be held as and when requested by any

of the parties concerned. In 2017, four meetings were held fulfilling the foreseen objectives.

During these meetings, monitoring is carried out on the following: all occupational health and safety activities, the new applicable legislation, the review of processes and internal regulations, and the analysis and monitoring of the occupational health and safety



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In 2017, in the companies contracted by Red Eléctrica, the frequency rate was reduced by 29.2% and the severity rate by 12.9%.

programmes and their results in addition to monitoring safety equipment and materials.

The minutes of these meetings are available to all employees in a specific section of the corporate intranet, 'miRED'.

Also, this Committee is made aware of the results of internal and external audits conducted and the improvement actions implemented.

On the other hand, to encourage employee participation, a specific community in this field has been created on the corporate intranet through which consultations and suggestions regarding safety can be made and any doubts resolved.

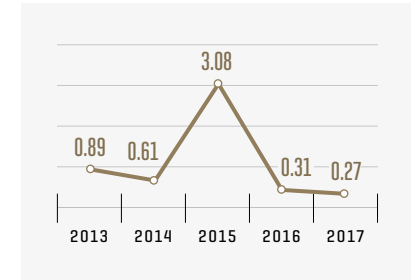
SAFETY IN THE SUPPLY CHAIN EU18

All suppliers who work in the facilities and work centres of Red Eléctrica are approved and qualified in occupational health and safety and, in the case of carrying out activities with risk, these activities are managed by the supplier's works supervisors who have been previously qualified by the Red Eléctrica prevention service. Red Eléctrica has certified more than 2,000 works supervisors, and more than 400 worksite managers.

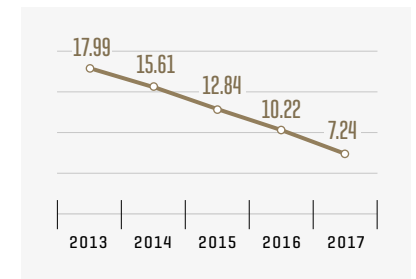
In addition, Red Eléctrica randomly requests, from its suppliers, proof of the health and safety training of its employees. It also requests proof of training in occupational health and safety for any new incorporations into the suppliers' database in the corporate occupational health and safety application (PRER).

During 2017, work was carried out within the UNESA [Spanish Electrical Industry Association] working groups on the preparation of a draft for the standardisation of training for occupational risk prevention for the health and safety of workers of contractor companies, which sets minimum recommended training standards for service companies that work in the electricity sector.

Accident Severity Rate of Red Eléctrica contractors / EU-17 [Target 2017: 1.16]



Accident Frequency Rate of Red Eléctrica contractors / EU-17 [Target 2017: 15.62]





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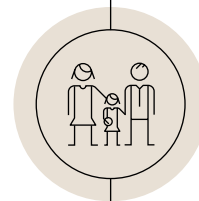
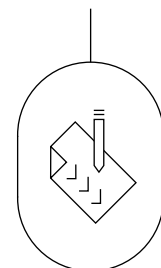


THE WORK-LIFE BALANCE 401-2

The management of the work-life balance, as contemplated in Red Eléctrica is much more than a simple organisational tool. It is a **model based on the EFR (Family-Responsible Company) guidelines** and a key factor of emotional and psychosocial well-being. This environment includes the organisation of work, institutional culture and attitudes, values, and practices that are exhibited daily in the organisation and affect the psychological and physical well-being of people.

The more than 60 work-life balance measures, actions and initiatives implemented by Red Eléctrica, which apply equally to all staff, regardless of the type of contract, are one of the fundamental axes that make up the management model. The 10th Collective Bargaining Agreement also represents a clear advance in this field as it complements or broadens the scope of existing measures. With all of these measures, Red Eléctrica aims to provide tools that will improve the well-being and quality of life of its employees, increase people's commitment and their pride of belonging.

Work-life BALANCE



Perception survey regarding the work-life balance

7 OUT OF 10

62% participation

In 2017, 100% of the actions foreseen in the 2nd Comprehensive Work-life Balance Plan (2014-2017) were carried out. A large part of these actions: days without school, urban camps or the role of work-life balance interlocutors, allow the Company to respond to individual situations. Among the objectives for 2018, noteworthy is the development of the 3rd Comprehensive Work-life Balance Plan and the renewal of the EFR certificate.

Periodically the management model is evaluated as well as the measures developed through perception surveys, in which the knowledge, use and satisfaction of the people are assessed with regard to the work-life management system. In the survey carried out in 2017, with a participation of 62%, the results have been highly satisfactory, reaching an average score of 7 out of 10, which is considered a strong score in the scale used. The survey allows new needs and aspects for improvement to be identified.

On the other hand, the establishment of a specific indicator [work-life balance ROI] will enable the return on investment in this matter to be quantified.

Indicators



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Information regarding employees and other workers / Spain ^[1]

102-8

[No.]

	2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Workforce	1,305	392	1,697	1,284	398	1,682	1,317	424	1,741
Employees with permanent contract	1,304	392	1,696	1,282	397	1,679	1,302	409	1,711
Employees with temporary contract ^[2]	1	0	1	2	1	3	15	15	30
Permanent contracts [%]	99.9	100.0	99.9	99.8	99.7	99.8	98.9	96.5	98.3
Part-time contracts	0	0	0	0	0	0	0	0	0
Workers from temporary employment agencies ^[3]	13	15	28	6	9	15	1	4	5
Interns ^[3]	31	26	57	35	32	67	36	19	55

^[1] Data regarding REE+REC up to 2016 and for REE+REC+REI+REINTEL+REINCAN as of 2017.

^[2] The increase of temporary contracts in 2017 is due to the promotion of the development of young professionals.

^[3] These workers are not included in the workforce count as they are not employees of Red Eléctrica.

Note: Red Eléctrica has no self-employed workers that are legally recognised.

Employees covered by the collective bargaining agreement / Spain ^[1]

102-41

[%]

	2015	2016	2017
Employees included in the Collective Bargaining Agreement	98.8	98.8	98.6
Employees excluded from the Collective Bargaining Agreement ^[2]	1.2	1.2	1.4

^[1] Data regarding REE+REC up to 2016 and for REE+REC+REINCAN+REI+REINTEL as of 2017.

^[2] Employees who voluntarily and reversibly accept the proposal of the management of the Company to be excluded from the agreement. The management team was not taken into account in the overall calculation and represents 7.2% of the total workforce.



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New recruitment by age and gender / Spain [1]

401-1

	2015						2016						2017					
	N° of new recruits			Recruitment rate [%]			N° of new recruits			Recruitment rate [%]			N° of new recruits			Recruitment rate [%]		
	M	W	Total	M	W	Total	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Less than 30	10	6	16	32.3	54.5	38.1	4	3	7	16.0	27.3	43.3	18	15	33	45.0	57.7	50.0
30 to 50	23	11	34	2.7	3.7	2.9	11	15	26	1.3	5.1	6.4	28	13	41	3.3	4.3	3.5
Over 50	0	0	0	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0	2	0	2	0.5	0.0	0.4
Total recruitment	33	17	50	2.5	4.3	2.9	15	18	33	1.2	4.5	5.7	48	28	76	3.6	6.6	4.4

[1] Data regarding REE+REC up to 2016 and for REE+REC+REI+REINTEL+REINCAN as of 2017 [new recruitment that is still working as at 31.12.2017 is included].
M: Men W: Women

Employee turnover by age and gender / Spain [1]

401-1

	2015				2016				2017			
	N° people leaving		Turnover rate [%]		N° people leaving		Turnover rate [%]		N° people leaving		Turnover rate [%]	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Less than 30	0	0	0.0	0.0	0	1	0.0	9.1	7	10	38.5	25.8
30 to 50	11	8	1.2	2.6	7	8	0.8	2.7	8	5	1.7	1.1
Over 50	15	1	4.0	1.5	29	3	7.0	3.7	27	3	3.1	5.8
Total turnover	26	9	2.0	2.3	36	12	2.8	3.1	42	18	4.2	3.4

[1] Data regarding REE+REC up to 2016 and for REE+REC+REI+REINTEL+REINCAN as of 2017.
Note. Average length of service of those leaving: 15.87 years.


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Maternity/paternity leave rates (M/P) / Spain [1]

401-3

[No.]

	2015		2016		2017	
	Men	Women	Men	Women	Men	Women
Employees with the right to M/P leave	80	40	69	26	67	29
Employees who have taken M/P leave	80	40	69	26	67	29
Re-incorporations at the end of M/P leave [2]	80	36	69	23	66	27
Employees with M/P leave who remain in the workforce [%] [3]	100	90	100	89	99	93

[1] Data for Red Eléctrica de España S.A.U. + REC.

[2] The difference between the number of re-incorporations of women and men in relation to those who have enjoyed leave is due to 3 authorised leaves due to childcare.

[3] Employees who return to work after M/P leave and continued at work in the twelve months after their reincorporation. Data as at year end.

Occupational health and safety indicators / Spain [1]

403-2

[No.]

	2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Average workforce	1,313	391	1,704	1,306	398	1,704	1,313	418	1,731
Hours worked (thousands)	2,214	659	2,873	2,207	673	2,880	2,219	706	2,925
Accidents with sick leave	8	5	13	7	0	7	5	0	5
Fatal accidents	0	0	0	0	0	0	0	0	0
Days lost due to accidents [2]	202	146	348	255	0	255	139	0	139
Accident frequency rate	3.61	7.58	4.52	3.17	0	2.43	2.25	0	1.71
Accident severity rate	0.09	0.22	0.12	0.12	0	0.09	0.06	0	0.05
Incidence rate	6.09	12.79	7.63	5.36	0	4.11	3.81	0	2.89
Absenteeism rate due to common illness [a]	1.80	3.19	2.12	1.87	2.34	1.98	1.53	3.24	1.94
Absenteeism rate due to occupational illness [b]	1.89	3.30	2.20	1.95	2.35	2.05	1.64	3.26	2.03

[1] Data for REE+REC+REI+REINTEL+REINCAN.

[2] The calculation is based on 6,000 working days per fatal accident and 4,500 for total permanent incapacity.

Serious accident: Those classified as serious by each doctor that issued the sick leave certificate.

Accident frequency rate: The number of work-related accidents with leave of absence per million hours worked.

Accident severity rate: The number of work days lost due to work-related accidents + incapacity scale, per thousand hours worked.

Incidence rate: The number of accidents with sick leave x 1,000 / average headcount.

Absenteeism rate: [a] Days absent due to common TI (temporary incapacity) > 3 days + days absent TI <3 days / average headcount x 365 x 100. [b] Days absent due to common TI (temporary incapacity) TI <3 days + days absent due to Work-related Accidents + Work-related Illness / average headcount x 365 x 100.

Note 1. The data for accident and absenteeism rates for 2017 is provisional.

Note 2. The registering and reporting of accidents is done based on Spanish law and as set out in the Red Eléctrica management system, certified according to OHSAS 18001.


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Average hours of training by professional group and gender / Spain [1]

404-1

[No.]

	2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Management team	112	163	122	110	120	112	112	95	104
Specialist / technical experts [G1 + G2 + G3]	95	130	101	83	90	84	108	115	111
Administrative personnel [G4]	30	54	48	23	36	32	15	50	33
Total	86	114	100	83	79	82	109	105	108

[1] Data for REE+REC+REI+REINTEL+REINCAN.

Percentage of employees whose work performance and professional development is appraised periodically / Spain [1]

404-3

[%]

	2015		2016		2017	
	Men	Women	Men	Women	Men	Women
Employees with a performance appraisal	100	100	100	100	100	100

[1] Data for REE+REC+REI+REINTEL+REINCAN.

Composition of the corporate governance bodies

405-1

[No.]

	2015				2016				2017			
	M	W	Total	%W	M	W	Total	%W	M	W	Total	%W
Board of Directors	7	5	12	41.7	7	4	11	36.4	8	4	12	33.3
Audit Committee	4	1	5	20.0	4	1	5	20.0	3	2	5	40.0
Appointments and Remuneration Committee	0	4	4	100.0	1	3	4	75.0	3	2	5	40.0

Note: The Board of Directors is composed of 12 members, although at the end of 2016 there was a vacancy. Similarly, in 2016 there was also a vacancy in the Appointments and Remuneration Committee.



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Composition of the corporate governance bodies by age

405-1

[%]

	2017		
	Under 30	30 to 50	Over 50
Board of Directors	0	25	75
Audit Committee	0	0	100
Appointments and Remuneration Committee	0	40	60

Workforce distribution by age, gender and professional group / Spain [1]

405-1

[%]

	2015						2016						2017					
	Under 30		30 - 50		Over 50		Under 30		30 - 50		Over 50		Under 30		30 - 50		Over 50	
	M	W	M	W	M	W	M	W	M	W	M	W	M	W	M	W	M	W
Management team	0.0	0.0	69.6	30.4	88.9	11.1	0.0	0.0	69.4	30.6	87.7	12.3	0.0	0.0	62.9	37.1	87.0	13.0
Specialist / technical experts [G1 + G2 + G3]	73.8	26.2	77.5	22.5	91.6	8.4	69.4	30.6	76.9	23.1	90.8	9.2	60.0	40.0	77.3	22.7	90.4	9.6
Administrative personnel [G4]	0.0	0.0	17.9	82.1	32.3	67.7	0.0	0.0	18.4	81.6	28.2	71.8	0.0	0.0	15.9	84.1	29.7	70.3
TOTAL	73.8	26.2	74.2	25.8	83.5	16.5	69.4	30.6	74.0	26.0	82.0	18.0	60.0	40.0	74.1	25.9	81.3	18.8

[1] Data for Red Eléctrica de España S.A.U. + REC.

M: Men W: Women

Workforce breakdown by age and gender / Spain [1]

405-1

[No.]

	2015			2016			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Under 30	31	11	42	25	11	36	40	26	66
30 to 50	860	299	1,159	832	293	1,125	858	300	1,158
Over 50	414	82	496	427	94	521	419	98	517
Total	1,305	392	1,697	1,284	398	1,682	1,317	424	1,741

[1] Data regarding REE+REC up to 2016 and for REE+REC+REI+REINTEL+REINCAN as of 2017.



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Ratio of base salaries of men compared to women / Spain [1] (M/W)

405-2

	2015	2016	2017
Management team	1.01	1.03	1.05
Specialist / technical experts [G1 + G2 + G3]	0.94	0.94	0.98
Administrative personnel [G4]	1.01	1.01	1.06
Total	1.02	1.01	1.02

[1] Data from REE+REC.

Occupational health and safety indicators. REE contractors [1] (N°)

EU17

	2015	2016	2017
Average workforce [1]	2,950	2,666	2,940
Hours worked (thousands)	4,986	4,502	4,969
Accidents with sick leave	62	46	36
Fatal accidents	2	0	0
Days lost due to accidents [2]	15,347	1,402	1,366
Accident frequency rate	12.84	10.22	7.24
Accident severity rate	3.08	0.31	0.27
Incidence rate	21.69	17.26	12.24

[1] Based on hours worked, considering 1,690 hours per worker.

[2] Calculation based on 6,000 working days per fatal accident and 4,500 for total permanent incapacity.

Note: provisional data for 2017.

Employees with the possibility of retirement in the next 5 or 10 years/ Spain [1] (%)

EU15

	In the next 5 years 2018-2022	In the following 5 years 2023-2027
Management team	1.1	1.0
Specialist / technical experts [G1+G2+G3]	6.0	9.2
Administrative personnel [G4]	0.8	2.1
Total	7.8	12.3

[1] Data for Red Eléctrica de España S.A.U. (workforce 1,709)

Note 1. Considering retirement age as a sole requirement and estimating this as 65 years of age.

Note 2. In the first period (2018-2022), employees considered are those whose age is equal to or greater than 65.



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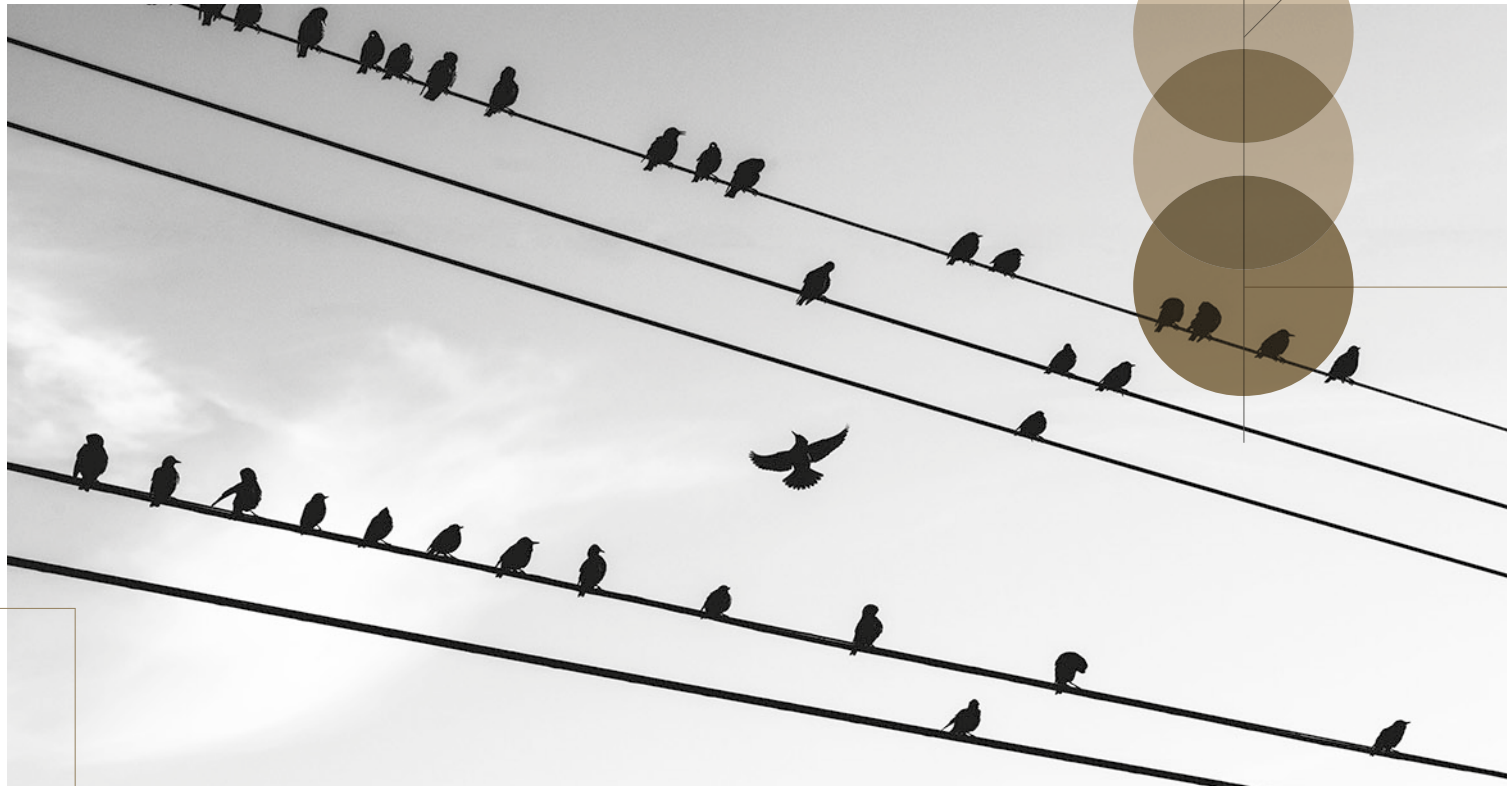


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RESPONSIBLE ENVIRONMENTAL MANAGEMENT





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Our environmental management / 103-1 / 103-2 / 103-3

Red Eléctrica carries out all its activities taking into account environmental protection, in accordance with the principles established in its **environmental policy**, including the commitment to prevent pollution and the principle of precaution. / 102-11

The main environmental impacts of Red Eléctrica are those that arise from the presence of the facilities in the territory, which is why the Company works intensively to make them compatible with the environment, considering their entire life cycle and paying special attention to the conservation of biodiversity.

In addition, Red Eléctrica is committed to a sustainable energy model, thus acquiring a specific commitment to climate change and energy efficiency.

Red Eléctrica's commitment not only covers its own activities, but also extends to those of its supply chain.

MANAGEMENT SYSTEM

In order to carry out a continuous improvement of environmental performance, Red Eléctrica has implemented an environmental management system certified according to ISO 14001 and registered, since October 2001, in the **Community Eco-Management and Audit System (EMAS)**.



One of the fundamental elements of the management system is the annual environmental programme, the scope of which was extended in 2017 to include all the activities with an environmental component, in a global and cross-cutting way to the entire company, which is now called the **annual environmental plan**.

The environmental plan is built on three vectors: environmental management of facilities, biodiversity and climate change. With the aim of further promoting the environmental commitment of Red Eléctrica, the environmental plan of 2018 includes, as a new aspect, the main challenges identified by





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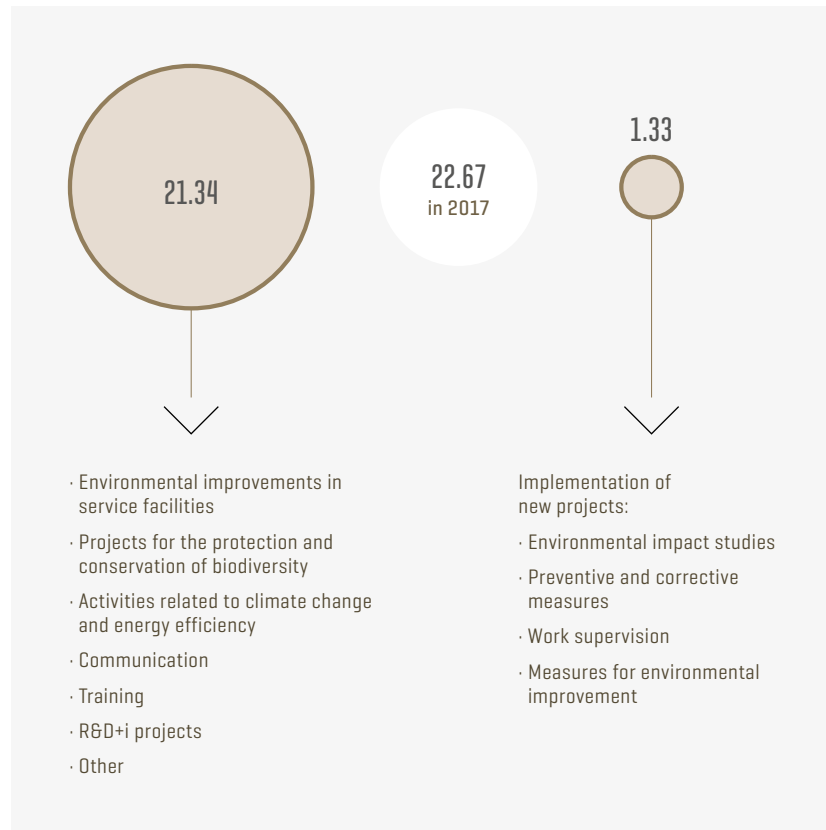
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each vector and the objectives to be achieved in the 2020 horizon for each one of them. Fulfilment of the 2017 Environmental Plan stood at 73%.

ENVIRONMENTAL EXPENDITURE

Red Eléctrica sets aside significant financial resources for environmental protection. In 2017, the Company earmarked 22.67 million euros to environmental issues.

Environmental expenditure Millions of euros



SUPPLY CHAIN 103-1 / 103-2 / 103-3 / 308-1 / 308-2

Red Eléctrica requires that all those suppliers that have a greater environmental impact have an environmental management system documented or certified by a third party. In 2017, this requirement was requested from 224 new suppliers.

With the aim of improving the environmental performance of the supply chain, a project was launched in 2015 seeking to adjust the requirements requested from different suppliers to the impacts [potential or real] associated with each one of them. After a process of identification and assessment of the impacts on the contracted services, and the conducting of tests with a significant group of suppliers, the project was finalised in 2017. Said project concluded that the requirement for a system certified by a third party was in line with the type of impacts associated with the services provided by Red Eléctrica's suppliers, whereby it was considered appropriate to continue with this prerequisite going forward without the need to add any further mandatory requirements.

Nevertheless, work will continue to be carried out with suppliers through a questionnaire on sustainability issues, with an associated scoring system, that will help identify areas for improvement and collaborative projects that will help boost and advance their environmental performance.

The environmental requirements, in terms of training and specifications, for the execution of works are part of the contractual documentation for those services where it has been deemed necessary. In the case of the activities with the greatest potential impact, such as construction, refurbishment of facilities and some maintenance activities, a part of the payment for the contracted work is conditional on the result of the environmental certification process of the works, which implies a meticulous monitoring of the established environmental requirements.



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Integrating facilities into the environment /103-1 /103-2 /103-3

The main measure to reduce and even avoid the undesired effects of Red Eléctrica's facilities in the environment and in local communities is the selection of the site where facilities will be located. For this reason, the Company carries out a detailed study of the territory and works in coordination with the public administrations and the main stakeholders in the definition of the substation sites and the routes of the lines.

In addition, Red Eléctrica establishes the appropriate preventive and corrective measures to be applied in the execution of the construction or maintenance

works, in order to reduce, as much as possible, the potential impacts that these activities may have on the territory.

The best tool to carry out the definition of the best project and the appropriate preventive and corrective measures is the procedure of **Environmental Impact Assessment**, to which most of Red Eléctrica's projects are subject to by law.

To ensure the commencement and effectiveness of the defined measures, **environmental monitoring programmes** are defined and carried out. These are applied in the construction of the facilities and in the first years of operation and facilitate the definition of new measures if necessary.





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When the law does not require a regulated procedure, the Company also carries out an assessment of an environmental nature and establishes voluntary communication with the public administration concerned.



All these measures are described in further detail in the following sections of this chapter.

PUBLIC PARTICIPATION

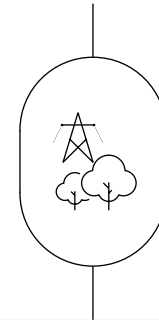
Currently, one of the most relevant issues in relation to the integration of facilities into the environment is how to improve their social acceptance. The development of public participation processes is a key tool for this.

During 2017, Red Eléctrica worked on the public participation and consultation process for the submarine interconnection project with France across the Bay of Biscay as, given its status as a Project of Community Interest (PCI), it requires this type of procedure.

For facilities undergoing maintenance, the Company carries out periodic inspections in order to verify compliance with environmental standards and identify the necessary improvement actions.

Among the preventive and corrective measures applied, noteworthy are those aimed at the protection of habitats and species (measures for the protection of biodiversity) or those geared towards reducing potential impacts on the socioeconomic environment.

Integration OF FACILITIES



In 2017 a methodology was developed that will be applied in

11 PROJECTS during 2018

With the aim of improving social acceptance regarding the integration of facilities

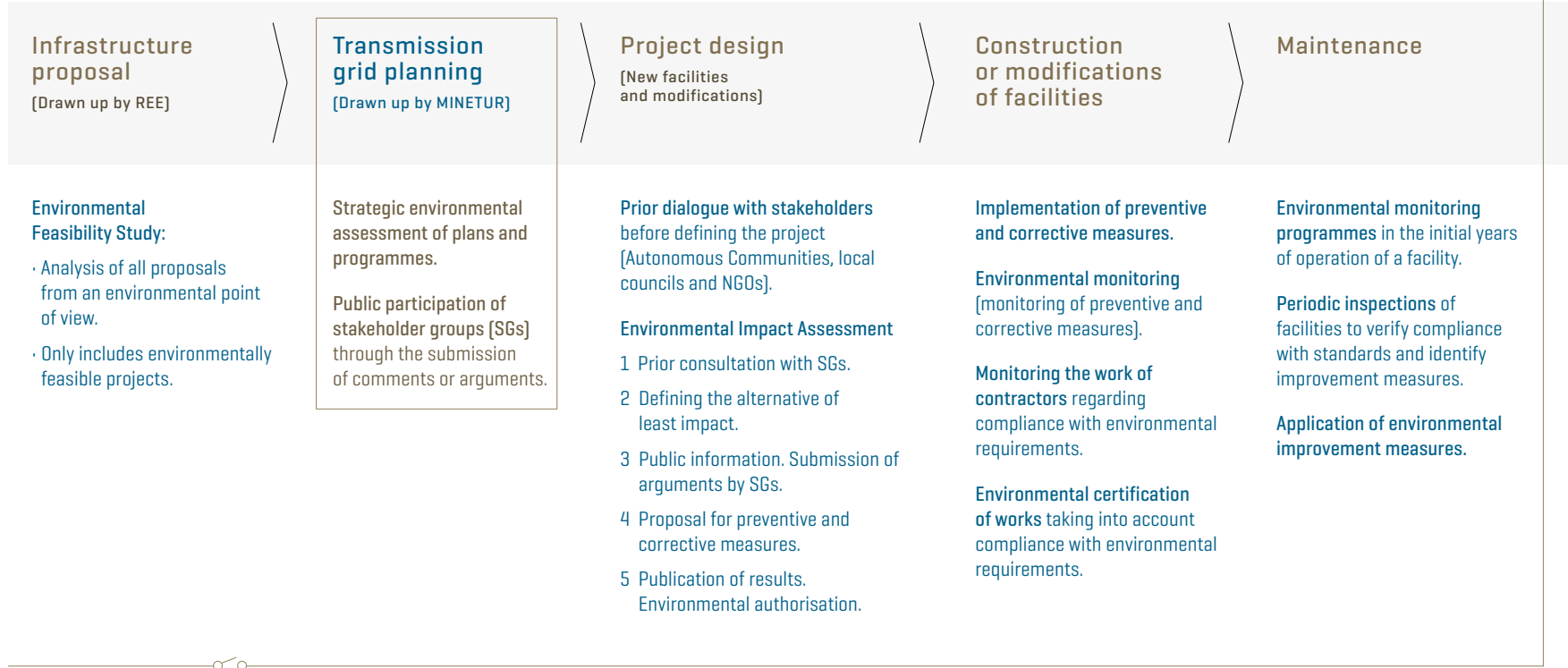


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In addition, the Company is strengthening stakeholder management by establishing plans for public participation and consultation processes for other projects. The objectives that are pursued are the following:

- Strengthen information for the stakeholders involved regarding the need for the projects and their environmental and social impact.
 - Collate information that serves to enrich the project impact assessment process.
 - Foresee and minimise potential conflicts.
- During 2017, a methodology was developed for this purpose, which will be applied in eleven projects during 2018.

DEVELOPMENT AND IMPLEMENTATION PHASES FOR TRANSMISSION GRID INFRASTRUCTURE





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In 2017, noteworthy was the use of helicopters in the replacement of 74 towers in various lines, mainly to avoid the opening up of access routes and the associated impacts.



SOCIO-ECONOMIC ENVIRONMENT 413-2

The presence of electricity infrastructure in no case represents a significant alteration in the way of life of the communities affected. In the case of substations, these produce a total and irreversible occupation of land, however in the case of electricity lines, land use is limited to the feet of the towers and the newly created accesses to the infrastructure. The land surface with overhead electricity lines is subject

to a right of way easement during the useful life of the infrastructure. Livestock and agricultural activities are compatible with the lines, allowing all kinds of agricultural crops to be grown under them and the free movement of the machinery necessary for its management.

The social aspects are integrated into the environmental assessment that takes place in the design phase of facilities.

Main conditioning factors in the definition of siting locations of facilities and the design of access routes



- Incompatible use of the land
- Areas of high agricultural yield and agroforestry plantations
- Touristic resources
- Cultural resources
- Landscape

Main preventive and corrective measures



- Use of existing accesses
- Use of special techniques [e.g. use of boom crane or helicopter] for assembling towers
- Restoration of areas affected by the works: slopes, roads, accesses, enclosures and the replanting of crops

These restorations may be accompanied by other measures agreed with the land owners, such as:

- improvement of forest trails or roads
- construction of waterways
- piped irrigation channels
- clearing of farmland

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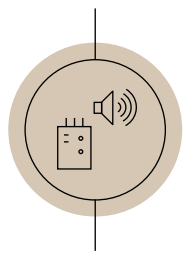
NOISE

On some occasions, electricity substations can be an annoyance for the neighbours, due to the noise generated by some of its elements. Red Eléctrica works on the implementation of the most effective measures for mitigating noise pollution.

In addition, the **ACURED R&D+i project** was launched in 2016, with the aim of improving knowledge of the nature of the noise generated and evaluating different technical solutions to mitigate it. So far, the phases of prior study, assessment, classification and prioritisation of noise sources and the proposal and simulation of corrective measures have been conducted.

In 2017, a longitudinal vegetation screen was built to reduce the noise generated by the power transformer in the 400/220 KV Solórzano substation; and a ridge was created with surplus soil that

ACURED R&D+i PROJECT



MITIGATE NOISE generated in substations

is planned to be replanted with vegetation to mitigate the noise produced in the 220 KV Arkale substation.

BLENDING FACILITIES INTO THE LANDSCAPE

One of the principal challenges regarding the integration of electricity transmission infrastructure into the environment is the ability to blend them into the

landscape. In order to progress in this integration, it is essential to improve the tools for evaluating the visual impact of the facilities. For this reason, in recent years, Red Eléctrica has been promoting different projects in this field.

Tools for assessing the visual impact of facilities

Taking the landscape into account in the environmental impact studies of electricity lines. Since 2016, a methodology for the analysis and integration of the landscape has been applied, which makes it possible to evaluate the landscape impact of future facilities and systematically integrate the landscape variable into the decision-making process.

Landscape assessment system for Red Eléctrica facilities. The Company is working on the development of a system that incorporates social variables related to the visual perception of the facilities. This system has already been applied as a pilot in the province of Leon and in the autonomous communities of Asturias and Galicia. For 2018, the application and assessment of results in Castilla y León is foreseen.

Methodology for visibility analysis of electricity lines. This permits the drafting of intervisibility maps and visual basins, and a view of existing or planned lines, through 3D simulations, using the corporate geographical information system (GeoRed). Therefore, it is very useful for making comparisons between alternatives or for presentations to different stakeholder groups.

Other landscape integration measures

Standardisation and design of towers that blend better into the landscape.

Landscape integration of substation buildings through the development of designs adapted to the environment in which the facilities are located.

Restoration of the areas affected by the works: supply of topsoil, adaptation of slopes and work camps and carrying out sowing and planting works.

Creation of vegetation screens and gardened areas in the vicinity of the facilities.





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In 2017, archaeological supervision was carried out in the construction of 10 new substations and in 24 works on new and existing lines. Permanent presence, during the works, of an archaeologist for 60% of the substations and 75% of the lines.

PROTECTION OF ARCHAEOLOGICAL AND ETHNOLOGICAL HERITAGE

The protection of archaeological and ethnological heritage is an important factor in the design and construction of facilities.

Before carrying out any earthworks, an archaeological survey is made, the intensity and scope of which depend on the probability that there is material of interest in the area. According to the results, the need for the continuous presence of an archaeologist during the works is determined and, if necessary, the preventive measures to be applied during the works are defined.

On the other hand, in 2014 work began on the ArqueoRED project, whose objective is to have the

information regarding catalogued cultural heritage digitally mapped for the entire national territory. The consultation of this information prior to the execution of works in the facilities enables the necessary measures to be defined in each case and thus avoid potential impacts. Thanks to the close collaboration with the administrations concerned, the information of all the autonomous communities is already available.

Adaptation of the 'Era de Son Telm' (Ferreries, Menorca)

Restoration of a stone 'threshing floor' of about 100-120 years old that was in very poor condition, located on one of the farms along which the 132 kV Ciudadela-Mercadal line runs. The restoration consisted of the removal of undergrowth, the repair of the paving and the collecting of perimeter stones that were scattered

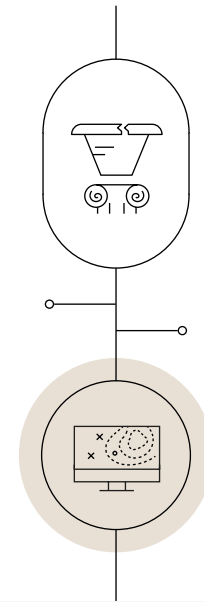
In 2017, work was done on the field review of the information obtained from four communities, with the intention of continuing the process in a further ten communities in 2018.

In addition, Red Eléctrica collaborates actively with the public administration on the conservation of cultural heritage.

around the area for them to be put back in their original place.

The conservation of this element is important both for the value of the structure itself and for relevance as a symbol of the agricultural tradition in the area.

ArqueoRED PROJECT



DIGITAL MAPPING

of catalogued heritage nationwide

Started in 2014

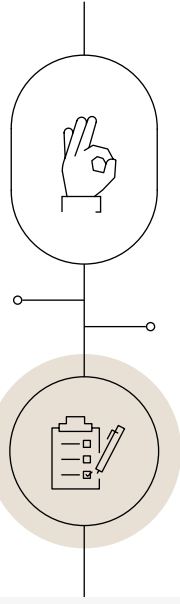
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ELECTRIC AND MAGNETIC FIELDS 103-1 / 103-2 / 103-3 / 416-1

Thanks to the criteria applied in the design of facilities, the levels of electric and magnetic fields (EMFs) stay below those recommended by the Council of the European Union (The Official Journal of the European Communities 1999/519/EC: establishes exposure limit values for the general public in sites where they may remain for a period of time at 5kV/m for electric fields and 100µT for magnetic fields). The most important measures are the following:

- Construction of double circuits and transposition of phases in lines.
- Increasing the height of towers, thus increasing the safety distances.
- Establishing the minimum distance of electricity lines from population nuclei and isolated houses.

Legal COMPLIANCE



ZERO INCIDENTS
of non-compliance with regulations

Red Eléctrica has assessed and validated compliance with the regulations for 100% of its facilities.

In order to verify compliance with the recommendation, Red Eléctrica has a tool that uses specific line parameters to accurately calculate the maximum EMF levels that said facilities can generate.

It is only necessary to make measurements in situ when the values of the parameters necessary for the calculation are not available. This is the case of some facilities acquired by the Company in 2010 in the island systems, for which a specific plan of measures was developed during 2015 and 2016, all the values were found to be within the recommended exposure limit values.

In addition, in specific cases, Red Eléctrica conducts some

measurements at the request of interested parties. In 2017, measurements have been taken for three lines and one substation, in all cases with results being below the limit values recommended by the European Union. During the year, there were no incidents registered due to non-compliance with the regulations in this matter. / 416-2

Nonetheless, aware that electromagnetic fields are an aspect that generate significant interest in the territories where electricity facilities are located, this issue is addressed with special relevance in the informative sessions regarding future projects, as has been the case with those sessions carried out in the local councils of Astillero and Camargo in 2017.



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Red Eléctrica keeps abreast of all new developments regarding electromagnetic fields, participating in working groups and actively supporting research projects in this field.

On the other hand, Red Eléctrica considers it of utmost importance to keep abreast of all new developments regarding electromagnetic fields, participating in different working groups and actively supporting research projects in this field:

- The Company is subscribed to an international information service (ELF Gateway), which informs its customers by email, on almost a daily basis, of all the new developments in this subject that appear worldwide.
- In 2017, the Company took part in the round table on 'Electromagnetic Radiation' included as part of the Health and Environment Plan of the Principality of Asturias [PASYMA].
- The Company has worked with UNESA in updating the publication '50 HZ electric and magnetic fields. Analysis of the current state of knowledge', which is available through the corporate website.



+ information in the Natural environment section of the Corporate website

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Biodiversity / 103-1 / 103-2 / 103-3

The protection and conservation of biodiversity have always been basic elements in the environmental management of Red Eléctrica. In 2017, Red Eléctrica renewed its commitment to biodiversity

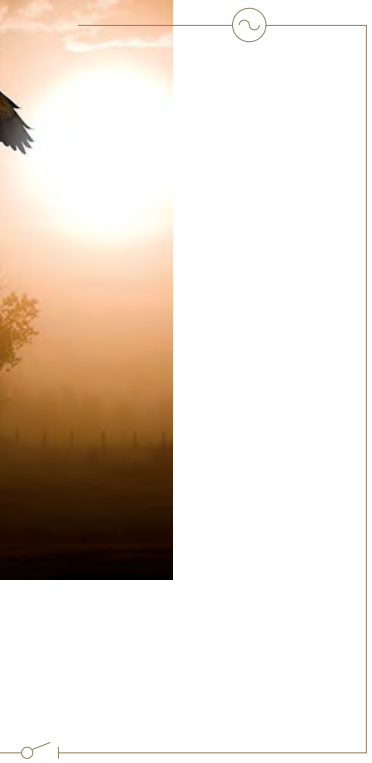
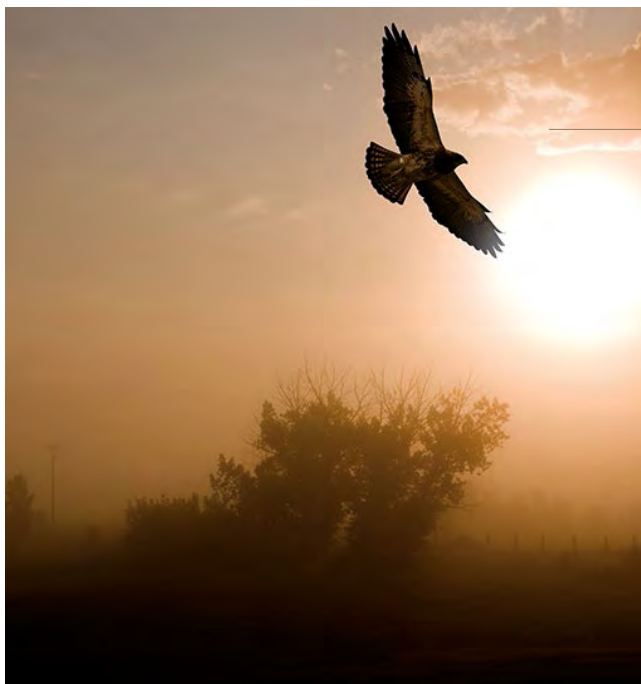
and approved a new **multi-year Biodiversity Action Plan** that includes the challenges and main objectives for the period 2017-2021, as well as the main projects to be carried out during this period.

Partnerships

- Adhered to the **Biodiversity Pact** [2013-2018]. Red Eléctrica is part of the Spanish Initiative for Enterprise and Biodiversity [IEBB] promoted by the Ministry of Agriculture, Food and Environment.
- Adhered to **The Ocean Conference** [UN] _ SDG 14.
- Adhered to the Spanish maritime cluster.

Recognitions

- ‘**Good Practice of the Year Award 2017**’ from the **Renewables Grid Initiative (RGI)** in the Environmental Protection category.
- Maximum score [100 out of 100] in the biodiversity criteria in the **Dow Jones Sustainability Index 2017**.
- Recognition of Red Eléctrica de España for its **contribution to the biodiversity data bank** of the Government of Valencia.





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BIODIVERSITY MANAGEMENT 103-2

Red Eléctrica's facilities are distributed nationwide, as the aim of the electricity transmission

grid is to connect the points of energy generation with those of consumption. **Avoiding** areas rich in biodiversity is one of the priority criteria taken into account both in the grid planning phase as well as

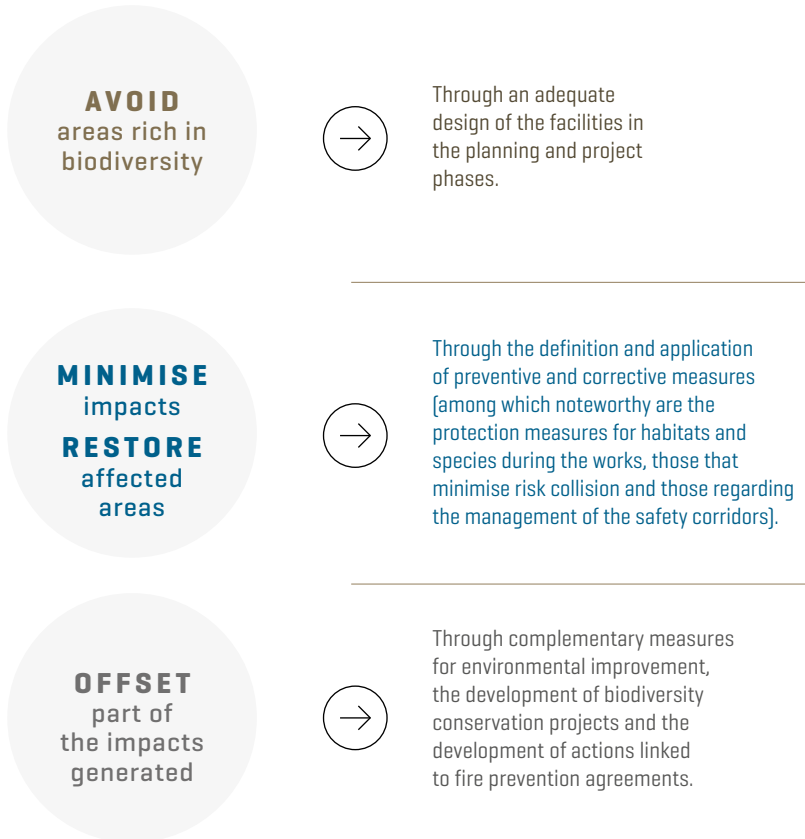
in the definition of each project. However, considering that 25% of the area of Spain has some form of environmental protection, it is inevitable that in some cases infrastructure crosses, or is located in protected areas or areas with species of interest.

complemented by **environmental improvement actions** to enhance biodiversity in those areas where the facilities are located, and which seek to **offset** some of the impacts that may have occurred.

Lastly, Red Eléctrica promotes and collaborates with the public administration, non-governmental organisations, research organisations and other interested parties in the development of biodiversity **conservation projects**, mainly focused on the species most related to the Company's activities.

On these occasions, Red Eléctrica implements all the preventive and corrective measures required to **minimise** the possible impacts on habitats and species (impacts associated with construction work and the modification of facilities, impacts on birdlife as a result of collisions and fire risks). These measures also include the **restoration** of affected areas, when possible. In addition, they are

Hierarchy followed for the mitigation of impacts on biodiversity



Red Eléctrica's current facilities occupy just 0.08% of the Spanish Natura Network.

Of the total infrastructure existing in 2017, only 15% of the lines and 5.9% of the substations are in protected areas [Red Natura].



BIODIVERSITY CHALLENGES: BIODIVERSITY ACTION PLAN (2017-2021)

CHALLENGES	MOST RELEVANT ACTIVITIES	ADVANCE	TARGETS 2021
Improve the management of biodiversity in the Company, incorporating new approaches and expanding the scope	<ul style="list-style-type: none"> · Definition of a new assessment methodology for investment projects. · Promoting the management of biodiversity in the Group's subsidiaries. · Extending commitment to the supply chain. 	Actions underway.	Completion of the three proposed actions.
	Make facilities compatible with biodiversity	<p>BIRDLIFE: Multi-year line marking plan.</p> <p>45% of the Critical priority area marked.</p>	100% critical priority areas marked by 2023.
	<p>FORESTED AREAS: Signing of agreements for the prevention of forest fires.</p> <p>12 agreements in force.</p> <p>HABITAT OF HIGH ECOLOGICAL VALUE: HABITAT Project.</p> <p>Obtaining field-validated mapping for 16 Autonomous Communities.</p>	Mapping designed, field-validated state of conservation and management plans for the conservation of the habitats identified in all the Autonomous Communities.	
Promote the conservation of biodiversity	Participation in wildlife conservation projects (especially birdlife) and flora.	11 birdlife projects in force, all of them on focal species.	6 annual projects in force, 5 of them on focal species.
	REE Forest.	Surface area recovered: 778 ha. Investment: 1,843,941 euros.	Exceed 1,000 ha recovered and reach a total investment of 2,500,000 euros.
	REE Marine Forest.	Signed agreements with the CSIC and the Government of the Balearic Islands for the planting of a marine forest of 2 ha.	Development of the Posidonia forest: 2 ha.
Raise awareness on Red Eléctrica's stance on biodiversity matters	Increase employee awareness.	Publication of information related to biodiversity on the corporate intranet.	Publication of internal news and the carrying out of specific campaigns.
	Promote corporate volunteering in the field of biodiversity.	Volunteering actions developed within the framework of the Natura 2000 Network Day.	Development of new actions (at least one a year).
	Increase the visibility of Red Eléctrica externally with regard to biodiversity.	Dissemination of projects in the press and on social networks. Publication of brochures and videos. Participation in forums and specialised working groups.	New informative products. Participation in events related to biodiversity (at least 2 per year).
Promote innovation in biodiversity	Implementation of innovation projects that contribute to the achievement of biodiversity challenges.	<i>Biotransporte</i> Project. <i>Vegeta</i> Project.	A minimum of three innovation projects implemented in the period.



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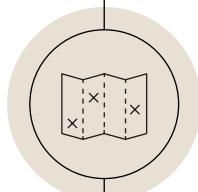
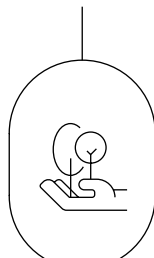
PROTECTION OF HABITATS AND SPECIES DURING WORKS 304-2

In works for the construction of lines or the modification of facilities, the main impacts to be avoided are the alteration of the habitat of certain species of fauna and flora, and also the impact on vegetation due to the opening up of safety corridors, necessary to prevent fires in the operation of the line.

Among the preventive and corrective measures applied, noteworthy are the following:

- Detailed field studies on specific issues, such as impact reports for Red Natura and surveys to identify the presence of protected flora and fauna.
- Introduction of modifications in the design of facilities to mitigate their impact on flora: compacting or increasing the height of towers, relocation of towers, modification of access roads etc.

Preventive MEASURES



Marking and protection of habitats and species of

VERY HIGH ECOLOGICAL VALUE

to avoid them being harmed when carrying out works



- Construction of decanting pools and filters to prevent contamination of waterways.
- Signage and protection of habitats and species of ecological value to avoid them being harmed when carrying out works.

- Use of construction techniques that minimise earthworks and the occupation of land (reducing the opening up of access roads, size of work sites and storage areas for materials): hoisting structures with a boom crane, hanging of line by hand, or carrying out works using a helicopter or drone.

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- Transfer of species affected by the work to other areas to be replanted.
- Biological stoppages in 100% of the works during breeding or nesting periods to reduce impacts on the fauna that may be affected.
- Halting of works in periods or situations of high fire risk.
- Recovery of affected areas: restoration of slopes, sowing of seed and the planting of flora.
- Accompanying measures and the development of specific projects to improve biodiversity in affected areas.

In 2017, the following specific measures for the protection of habitats and species were carried out:

- **Concreting with the use of a helicopter** of 7 towers in the construction works of the 132 kV Puerto del Rosario-La Oliva line to protect the surface of this barren rocky area.

- **Hanging by hand of two spans** in the 132 kV Gran Tarajal-Matas Blancas line to protect palm groves and salt cedar trees (included in habitats of community interest) and the entire 132 kV Puerto del Rosario-la Oliva line (83 spans) for the protection of the surface of this barren rocky area (lava rock).
- **Biological stoppages** of various durations (periods between 3 and 6 months) on 5 lines, to avoid the impacts on various species, among which noteworthy are: Egyptian

Habitat Project (2015-2021)

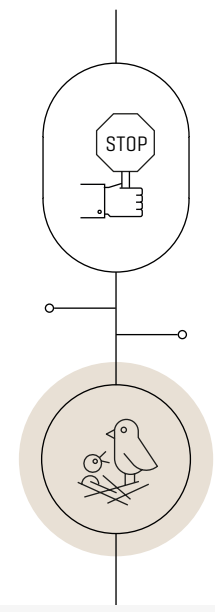
This project aims to know in detail the natural values present in the sphere of influence of Red Eléctrica facilities and their state of conservation. The final objective is to be able to monitor the interaction of electricity transmission lines and natural habitats of community interest, information that can be used in the decision-making process regarding their operation and maintenance.

- vulture, Houbara bustard, Great bustard, Little bustard, Dupont's lark, Lesser kestrel, Bonelli's eagle, Kite, European honey buzzard, European sand martin, Trumpeter finch, Black-bellied sandgrouse and Eurasian stone-curlew.
- **Installation of 37 nesting boxes** for European roller, owls and kestrels on the 220 kV Plasencia-Almaraz I/O line.

The first phase consisted of the **development of a digital map with all the information**, which is obtained by working in collaboration with the different autonomous communities and experts in the field and carrying out a subsequent validation in the field. This phase has already been completed for 16 autonomous communities.

Subsequently, work will be done on the design of management plans or measures that encourage the conservation of these habitats.

Biological STOPPAGES



For
3-6
MONTHS

To avoid impacts on various species

Implemented for 5 lines



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The 2016-2023 multi-year line marking plan will reduce the potential risk of birds colliding with overhead electricity lines by 25%.

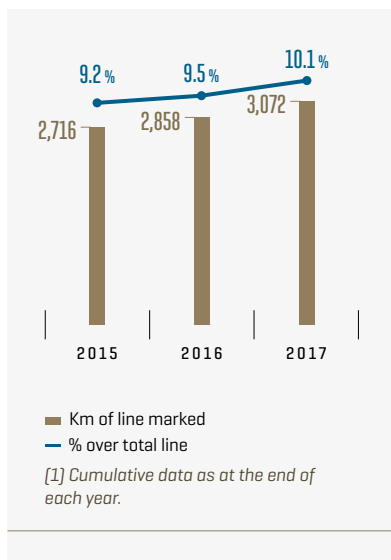
MINIMISING THE RISK OF BIRD COLLISIONS

The main impact on fauna by Red Eléctrica's facilities is the risk of birds colliding with grounding cables that protect the lines

from electrical discharges during storms. The main measure to reduce that risk is marking the grounding cables with devices that increase their visibility. / 304-2



Marking of lines with bird-flight diverters (1)



Marking of lines with bird-flight diverters in areas of critical priority. 2016-2023 Plan (1)



Thanks to the project 'Identification, characterisation and mapping of flight paths of birds that interact with high voltage transmission lines', which ended in 2016, a multi-year line marking plan for 2016-2023 was put in place in which priority is given to actions on sections of line with the greatest potential impact on birdlife. The execution of this plan will mean a reduction of 25% in the potential risk of birds colliding with overhead electricity lines.

Red Eléctrica also works on other relevant projects in relation to protecting birds from colliding with lines:

- Analysis of the effectiveness of the blade-type bird-flight diverter in different bird communities. Project in collaboration with the Doñana Biological Station (CSIC) (2013-2018).
- Collaboration with SEO BirdLife in the development of the 3rd Atlas of birds in breeding season in Spain (2014-2018). The information obtained will enable the updating of data relevant to the 'Identification, characterisation and mapping of flight paths of birds that interact with high voltage transmission lines' project.


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FIRE PREVENTION

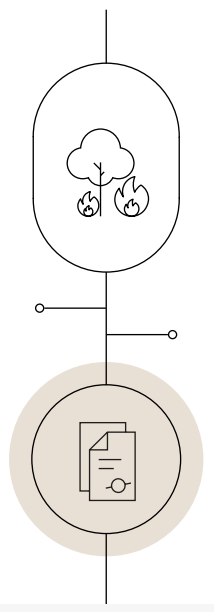
In order to minimise the risk of fire associated with the presence of transmission lines, strict compliance with the safety distances between flora and facilities is critical. Red Eléctrica ensures this compliance through the proper design of the safety corridors and the actions of predictive and preventive maintenance, such as the annual inspection of all facilities and the periodic conducting forestry work.

The Company applies best practices in the design and maintenance of safety corridors, respecting shrubs and small size/slow growing tree species, minimising the impact on protected species and refraining from using chemical treatment methods.

In addition, noteworthy is the importance of the active and continuous collaboration of Red Eléctrica with the public administrations involved in forestry management. This collaboration

 In [Chapter 7](#) of this Report and in the Natural environment section of the corporate website.

Fire PREVENTION



Currently in force
12
AGREEMENTS

-
for collaboration with the public administrations involved in forestry management

Red Eléctrica ensures compliance with safety distances between flora and facilities through the proper design of the safety corridors and the actions of predictive and preventive maintenance.

is formalised through the signing of **collaboration agreements for the prevention and fight against forest fires**. In 2017, a new agreement was signed, there are currently 12 in force, with a budget of more than 1,200,000 euros every

five years. The Company has set the goal of establishing this type of agreement with all the administrations concerned, a total of 21.

Vegeta Project (2015-2021)

The objective of this R&D+i project is to **optimise vegetation management tasks**. In 2016, work was carried out on the definition of an algorithm that, by analysing different variables (vegetation status and growth rate, distance to the electricity line, legal requirements and other established criteria), enables felling works to be established with greater efficiency. In addition, the project includes the carrying out of detailed inventories

of the vegetation inside the safety corridors, which makes it possible to identify compatible and incompatible species more accurately, thus facilitating the application of environmental criteria in maintenance tasks.

Up to 2017, progress has been made in the **execution of pilot projects in two autonomous communities**.



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CONTRIBUTION TO BIODIVERSITY CONSERVATION 304-3 / 304-4

Red Eléctrica actively contributes to the conservation of Spain's biodiversity, leading or participating in various projects and carrying out dissemination and training activities in environmental matters. Although working in different areas,

within the biodiversity action plan, the objective of the project is the development of wildlife conservation projects, mainly related to focal bird species [prone to collision].

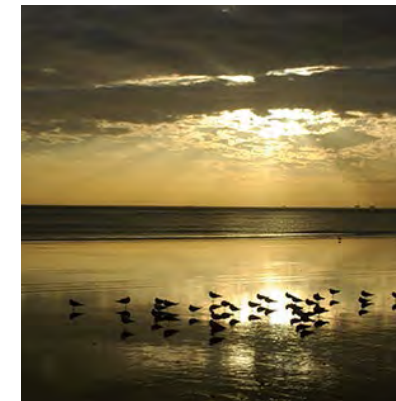
Other actions aimed at improving the conservation of biodiversity are included in the 'Contribution to social, economic and environmental development' chapter.

Conservation projects in connection with endangered species

- Platforms for the Osprey [*Pandion haliaetus*] in Andalusia. [1]
- Reintroduction of the Bonelli's eagle [*Hieraetus fasciatus*] in Majorca. [1]
- The actual impact of supplementary feeding on the spatial and reproductive ecology of the Bonelli's eagle [*Hieraetus fasciatus*] in the Community of Valencia. [1]
- Monitoring, conservation and recovery of the population of the Spanish Imperial eagle [*Aquila adalberti*] in Doñana. [2] [3]
- Foraging areas and movements of the Canarian Hubara [*Chlamydotis undulata fuertaventurae*]. [2] [3]
- Effects of global change on the Iberian populations of Egyptian vulture [*Neophron percnopterus*]. [1] [4]
- Reintroduction of the Black vulture [*Aegyptius monachus*] in the province of Burgos. [1]
- Conservation of the White-headed Malvasia [*Oxyura leucocephala*] in the Community of Valencia. [2] [4]

[1] Vulnerable species according to the national catalogue of endangered species. [2] Species in danger of extinction according to the national catalogue of endangered species. [3] Vulnerable species according to the IUCN red list. [4] Endangered species according to the IUCN red list.

The biodiversity action plan contemplates the carrying out of conservation projects regarding focal bird species, most prone to collision.



Biotransporte project (R&D+i)

This is an innovative project to analyse, identify, diagnose and assess the effectiveness of how the base or footing of electricity transmission towers can act as corridors, means or stepping-stones for the development of fauna of different protected natural areas of the Spanish Peninsula and Balearic Islands and Canary Islands and its connections with the electricity lines of Portugal and France.

populations of certain species of animals with dispersal problems. For this reason, the species most affected by habitat fragmentation problems will be analysed as a priority [regardless of their level of protection], and subsequently electricity lines suitable to connect distant populations of said species will be selected.

In 2017, the works focused on the identification of the target species and optimal spaces.

The objective is to use this information to improve the





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Effluents and waste /103-1 /103-2 /103-3

Red Eléctrica has established processes that help **minimise both the quantity and the hazardous risk level of waste generated**, such as the in-situ regeneration of power transformer oil for its reuse and the avoidance of the need to deal with large quantities of oil as waste. Work is also being carried out on the 'Minimisation of cleaning waste from transformer containment pits' and 'Sustainable Stock' projects.

Nevertheless, given the nature of the waste generating activities, it is very difficult to predict the evolution of the quantities generated and establish quantitative reduction targets. For example, the activity for the renovation and adaptation of

facilities generates a large amount of waste, but it cannot be limited as this activity is often linked to the reduction of environmental risks.

Therefore, most of the efforts are geared towards finding **better solutions for the final management of the waste**, promoting good practices through training and awareness and seeking the best options among our suppliers.

PREVENTIVE OR CORRECTIVE MAINTENANCE TASKS: inspections, changing of parts, oil renewal, etc.

IMPROVEMENT OF FACILITIES: renewal of obsolete switchgear, adaptation of accident prevention systems etc.

ACTIONS AGAINST ACCIDENTS: the containment measures used in the case of leaks or spillages and the associated cleaning works may lead to a large amount of waste.



GENERATION OF WASTE IN RED ELÉCTRICA



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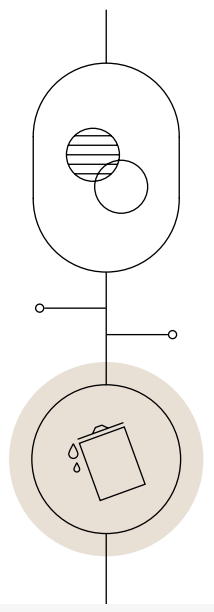
The **Waste Management Plan** establishes the management that will be undertaken in each project, establishing the criteria of minimisation and reuse as a priority.

'Sustainable stock' Project

Based on a reverse logistics project that faithfully follows the 3R principle: **reduce, reuse and recycle**.

The project allows the useful life of some materials to be extended, or the recovery of their components or materials through their sale through an auction system.

Waste MANAGEMENT



Sizeable reduction in waste coming from an **OIL AND WATER MIXTURE** - **Compared to previous years**

The waste generated in **construction activities** is managed by contractors. For all works there is a waste management plan which sets out the management to be carried out in each project, establishing the criteria of minimisation and reuse as a priority (which is especially important for surplus excavation material). In addition, Red Eléctrica includes specific waste management requirements in the contractual documentation of works and reviews compliance

through monitoring visits to works and via the control of documentation.

PROTECTION AGAINST LEAKS AND SPILLAGES

Red Eléctrica has established numerous preventive and corrective measures to minimise the risk of contamination of soil or groundwater due to leaks or spillages of oils, fuels and hazardous substances.

R&D+i project. Minimisation of cleaning waste from transformer containment pits

Oil containment pits may contain an oil and water mixture, therefore a catalyst has been developed that enables the water to be separated from the oil, so that the oil on its own can be managed as waste and not the oil and water mixture as a whole.

and, in this way, the waste to be managed and dealt with would be significantly reduced.

The treated water can then be reused in the same tanks, in order to maintain the level of water needed

In 2017, this process is starting to be applied in the management of facilities, resulting in a considerable reduction in the oil and water mixture waste compared to previous years.

	2015	2016	2017
Oil and water mixture waste	445,095 kg	721,785 kg	182,393 kg



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An innovative approach has been put in place to assess the risks associated with submarine cables taking into account the potential impacts generated on ecosystem services (direct and indirect benefits of ecosystems for human well-being).

On the one hand, proper maintenance of equipment is carried out and strict working procedures that reduce the number of incidents are established. On the other hand, adequate containment systems are installed, especially relevant in the case of power transformers containing large amounts of oil, and incident response protocols when faced with possible events that lead to a reduction in the severity of the consequences should accidents occur.

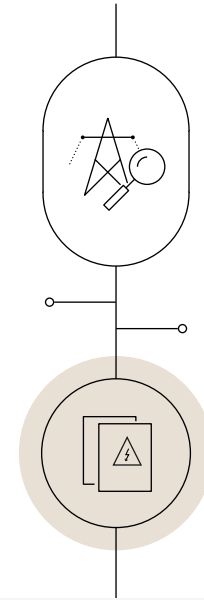
In addition to these measures, the Company has decided to promote work aimed at minimising the risks related to leaks and spillages of hazardous substances. For this reason, in the last two years, the project of environmental risk assessment and identification of environmental liabilities in electricity substations was developed, which has led to a plan of actions, prioritised by their urgency, to reduce, control or eliminate completely the risks identified.

In 2017, the environmental risk associated with cables containing oil was evaluated. For terrestrial cables, a model has been applied that integrates technical, historical, environmental and social data, and calculates the level of environmental risk based on a certain probability

of occurrence of an event and the severity of its impact. In the case of submarine cables, an innovative approach has been used when assessing risks taking into account the potential impacts generated on ecosystem services (direct and indirect benefits of ecosystems for human well-being).

Based on the results, risk maps have been drawn up from which specific actions will be developed in each case.

ENVIRONMENTAL RISK assessment



Red Eléctrica has an action **PLAN** THAT PRIORITISES ACTIONS BASED ON THEIR URGENCY

to reduce, control or eliminate completely the risks identified



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Indicators

Presence of facilities in Red Natura spaces 304-1

Spanish national grid	2015	2016	2017
Km of line in Red Natura/total km of line	15.0	15.1	15.0
Number of substations in Red Natura/number of substations	5.96	5.92	5.86
Surface area of facilities in Red Natura/total surface in Red Natura (1)	0.08	0.08	0.08

Red Natura (Natura 2000 Network) includes: SCI (Site of Community Importance) and SPA (Specially Protected Areas for birds).

(1) Surface area occupied by lines, substations and submarine cables. The surface area occupied by lines has been calculated assuming an occupation of 20 m on each side of the line. It is necessary to keep in mind that the occupation is overhead, there is only actual land occupation in the case of the towers. The surface occupied by submarine cables has been estimated at 1 metre on each side of the line.

Note 1: For the calculation of these indicators, the most up-to-date database published by MAPAMA is used.

Note 2: The mapping of in-service facilities is improved and updated annually, whereby some variations in calculations not related to the increase or decrease in the number of facilities may result.

Collisions of endangered species detected in 2017

Species	Nº of birds affected
Great bustard (<i>Otis tarda</i>) (1)	10
European turtle dove (<i>Streptopelia turtur</i>) (1)	2
Eurasian stone-curlew (<i>Burhinus oedicephalus</i>) (2)	5

(1) Vulnerable species according to IUCN Red List. / 304-4
 (2) Vulnerable species according to the National Catalogue of Endangered Species. / 304-4

Collisions are mainly detected during monitoring plans or specific studies: the 5 collisions of the Eurasian stone-curlew and 3 Great bustard collisions are related to specific studies.

Description of the most significant impacts on biodiversity 304-2

Most relevant impacts on protected spaces

Impact on 20 m² of soil inside a substation located in Red Natura 2000, due to spillage of 106 litres of oil as a result of the breakdown of a piece of equipment.

Most relevant impacts on vegetation

Clearing of marsh vegetation in 'Marismas and Riberas del Tinto' SAC (Special Area of Conservation) [1,050 m²], 'Estero de Domingo Rubio' SPA and SCI [1,300 m²]

Felling of Oaks (*Quercus pyrenaica*) in 'Riberas del Tuela' SAC 2,700 m² and its tributaries - (trees over 40 cm in diameter were felled)

Cutting back of 400 m² of riverside vegetation (*Salix*, *Fraxinus*, *Populus*) in the 'Riberas del Río Arlanzón' SCI and its tributaries.

Impact on 30 individual plants of Mediterranean saltwort (*Salsola vermiculata*), hawthorn (*Lycium intricatum*) and gorse (*Launaea arborescens*) in SPA and in 'Peninsula of Jandía' Natural Park.



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Species included in the IUCN red list and the national conservation list whose habitats are located in areas affected by operations

304-4

Scientific name	Common name	Classification according to MAPAMA (2016) (National Catalogue)	Classification according to the IUCN red list
1 <i>Aquila adalberti</i>	Imperial Eagle	In danger of extinction	Vulnerable [VU]
2 <i>Hieraetus fasciatus</i>	Bonelli's Eagle	Vulnerable	Least concern [LC]
3 <i>Pandion haliaetus</i>	Osprey	Vulnerable	Least concern [LC]
4 <i>Neophron percnopterus</i>	Griffon Vulture	Vulnerable	Endangered [E]
5 <i>Neophron percnopterus majorensis</i>	Canarian Egyptian Vulture	In danger of extinction	Not evaluated [NE] - species endemic to the Canary Islands
6 <i>Chersophilus duponti</i>	Dupont's Lark	Vulnerable	Near threatened [NT]
7 <i>Botaurus stellaris</i>	Euroasian Bittern	In danger of extinction	Least concern [LC]
8 <i>Otis tarda</i>	Great Bustard	-	Vulnerable [VU]
9 <i>Chlamydotis undulata</i>	Houbara Bustard	In danger of extinction	Vulnerable [VU]
10 <i>Aegypius monachus</i>	Black Vulture	Vulnerable	Near threatened [NT]
11 <i>Marmaronetta angustirostris</i>	Marbled Duck	In danger of extinction	Vulnerable [VU]
12 <i>Ciconia nigra</i>	Black Stork	Vulnerable	Least concern [LC]
13 <i>Corvus corax canariensis</i>	Common Raven	Not included	Not Evaluated [NE] - species endemic to the Canary Islands
14 <i>Fulica cristata</i>	Crested Coot	In danger of extinction	Least concern [LC]
15 <i>Pterocles alchata</i>	Pin-tailed Sandgrouse	Vulnerable	Least concern [LC]
16 <i>Pterocles orientalis</i>	Black-bellied Sandgrouse	Vulnerable	Least concern [LC]
17 <i>Ardeala ralloides</i>	Squacco Heron	Vulnerable	Least concern [LC]
18 <i>Falco pelegrinoides</i>	Barbary Falcon	In danger of extinction	Least concern [LC]
19 <i>Geraniticus eremita</i>	Northern Bald Ibis	-	Critically endangered [CR]
20 <i>Oxyura leucocephala</i>	White-headed Duck	In danger of extinction	Endangered [E]
21 <i>Milvus milvus</i>	Red Kite	In danger of extinction	Least concern [LC]
22 <i>Sterna nilotica</i>	Gull-billed Tern	Not included	Not evaluated [NE]
23 <i>Columba Ballii</i>	Bolle's pigeon	Vulnerable	Least concern [LC]
24 <i>Lagopus muta</i>	Rock Ptarmigan	Vulnerable	Least concern [LC]
25 <i>Dendrocopos leucatos</i>	White-backed Woodpecker	In danger of extinction	Least concern [LC]
26 <i>Fringilla teydea subsp</i>	Blue Chaffinch	In danger of extinction (Gran Canaria) / Vulnerable (Tenerife)	Near threatened [NT]
27 <i>Aythya nyra</i>	Ferruginous Duck	In danger of extinction	Near threatened [NT]
28 <i>Gypaetus barbatus</i>	The Bearded-Vulture	In danger of extinction	Near threatened [NT]
29 <i>Tetrax tetrax</i>	Little Bustard	Vulnerable	Near threatened [NT]
30 <i>Tetrao urogallus cantabricus</i>	Cantabrian Capercaillie	In danger of extinction	Not Evaluated [NE]
31 <i>Tetrao urogallus aquitanicus</i>	Aquitanian Capercaillie	Vulnerable	Not Evaluated [NE]
32 <i>Streptopelia turtur</i>	European turtle dove	Not included	Vulnerable [VU]
33 <i>Burhinus oedincnemus distinctus</i>	Eurasian stone-curlew	Vulnerable	Not evaluated [NE]

The main impact on protected species caused by REE's operations is that arising from the collision of the birds with the lines. In the framework of the project of 'Identification, characterisation and mapping of flight paths of birds that interact with high voltage transmission lines' 2010-2014, species that are prone to colliding with the REE lines have been identified (focal species, a total of 47) and whose habitats are in areas where these lines exist. Of the 47-registered species, 31 have been identified as threatened.

In addition, two species have been included in the list for which accidental collisions have been identified in 2017, although they are not focal species [32 and 33].



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Waste broken down by type and disposal method (kg)

306-2

Type of waste	2015	2016	2017
Non-hazardous waste (1)	1,857,536	1,522,422	1,688,540
Hazardous waste (2)	1,183,925	2,035,645	4,102,096

Waste management method (3)	[%]	
	Non-hazardous	Hazardous
Recycling/Composting/Anaerobic digestion	50.0	72.7
Regeneration	0.2	19.5
Valuation	1.5	0.7
Disposal (by any method)	48.3	7.1

[1] Metal waste not included as an adjustment is being made in the process of collecting and recording the information. Its disposal method is 100% recycling. Waste vegetation is not included either because it cannot be quantified, most is incorporated into the land or given to landowners.

[2] The increase in the amount of waste produced is related to the increase in remodelling and refurbishment of facilities, mainly the renewal of power transformers that has led to the increase of waste oil and electrical and electronic equipment.

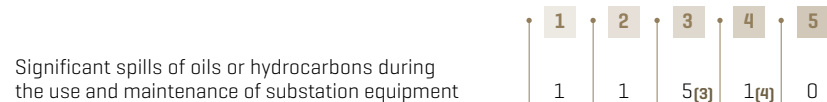
[3] The waste management corresponds to the information provided by the contractor (the one that appears in the legal documentation of waste management). The categories of final waste management have been broadened to unify criteria with national legislation. **The amount of waste whose destination has been recycling has been 80%** [it is included in the generic category of recycling: recycling, composting, anaerobic digestion and regeneration].

306-4: The treatment of used SF₆ gas waste, which consists in the regeneration of the gas for its subsequent reuse, is carried out outside Spain. This means that 0.09% of the total hazardous waste has been transported internationally.

Note: Once the plan for the disposal / decontamination of transformers, equipment and oil with PCBs was completed in 2010, waste continues to be generated due to the disposal of old closed equipment that turns out to be contaminated at the end of its useful life. In 2017, 12,611 Kg of equipment contaminated with PCBs was managed. / **306-1**

Leaks and spillages 2017^{[1][2]}

306-3



[1] Events classified as being of very little relevance as incidents are not included.

[2] Classification of accidents according to their severity with a scale of 1 to 5 (1 mild - 5 serious). There was a total of 8 accidents, involving an **approximate volume of 3,596 litres of spilled oil or diesel oil**. There were no accidents of a serious nature in 2017. No spillage has been included in the financial statements of the organisation.

[3] Significant accidents: two of them due to the explosion of measurement transformers and the rest generated by breakdowns in the equipment. As a whole, these have affected an approximate area of land of about 117 m². The land has been cleaned and the contaminated material removed except in a case where this task is still in process.

[4] Major accident: spillage occurred of 1,469 litres of diesel from a generator due to a leak in a seal of one of its deposits. Surveys have been carried out and the result of the characterisation of the soil is pending to carry out the corrective actions.


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Non-compliance with environmental laws and regulations

307-1

[No.]

Type of infringement	2015		2016		2017	
	No. of cases	Amount (euros)	No. of cases	Amount (euros)	No. of cases	Amount (euros)
Fire risk (lack of maintenance of vegetation or the abandoning of material)	2	811	2 (1)	751 (1)	-	-
Unauthorised felling and pruning	2 (1)	200 (1)	2	7,060	-	-
Obstruction of waterway / Unauthorised works in certain areas	-	-	-	-	-	-
Opening up of a forest trail without authorisation	1	2,000	-	-	-	-
Use of a helicopter in a critical birdlife area without authorisation	1	1,000	-	-	-	-
Crossing of a livestock route with an electricity line without authorisation	1	30,051	1	30,051	-	-
Incorrect waste management	1	2,500	-	-	-	-
Total	8 (1)	36,562 (1)	5 (1)	38,863 (1)	-	-

(1) Data updated in 2017 following the resolution of one case opened in 2015 and two opened in 2016. No case opened in 2017 has been closed.

Total water withdrawal by source

303-1

[m³]

	2015	2016	2017
Head Office	9,018	9,166	8,064
Other work centres	18,232	17,276	19,563
Total of all work centres (1)	27,250	26,442	27,627

(1) The data provided has a coverage of 80%, in terms of personnel (taking into account all the personnel working in the different work centres: Group employees, interns, employees from temporary staffing agencies and collaborators). The data is not available for some centres, mainly those that are not owned by the Company (rented).

Note 1: The water consumed comes from: the municipal mains (63.1%), wells (33.7%), cisterns (3.1%). In some work centres cisterns are available for the collection of rainwater for sanitary use, fire prevention and irrigation. In general, the cisterns do not have mechanisms to measure the water stored, so the actual % of utilisation of rainwater cannot be calculated. / 303-3



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Supply chain /103-1 /103-2 /103-3

The globalisation of markets has broadened the limits of responsibility of companies and brought about a change in the role of the supplier, whereby they now play a more prominent role. In this regard, Red Eléctrica, which is governed by a responsible management model, has extended its responsibility to encompass the supply chain. The Company implements its management model based on the principles of non-discrimination, mutual recognition, proportionality, equal treatment and transparency, as well as a framework of legislation and codes, policies and internal regulations of the Company, as shown on the next page.





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MODEL FOR THE RESPONSIBLE MANAGEMENT OF THE SUPPLY CHAIN

Framework

DIRECTIVE 2014/25/EU	LAW 31/2007	REE CODE OF ETHICS	SUPPLIER CODE OF CONDUCT	PROCUREMENT POLICY	CR POLICY	GUIDE FOR THE PREVENTION OF CORRUPTION	INTERNAL REGULATION
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Levers for ongoing improvement

REE STRATEGIC PLAN	HUMAN RESOURCES MASTER PLAN (2016-2019)	PROCUREMENT MASTER PLAN (2016-2019)	AUDIT ASSESSMENTS	SUSTAINABILITY PLAN 2017-2019	CUSTOMER AND SUPPLIER SATISFACTION SURVEYS	OBJECTIVES AND PROJECTS
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Pillars

CONTINUOUS SEARCH FOR THE LOWEST EXPECTED TOTAL COST



- Search for efficiency, effectiveness and simplification of processes.
- Implementation of sourcing strategies to optimise own resources.

TRANSPARENCY AND THE SEPARATION OF FUNCTIONS WITHIN THE MANAGEMENT PROCESSES



- Centralised management of the chain through segregated functions.
- Existence of a specific independent department for suppliers.
- Maximum communication with the supplier in all processes.
- Supplier qualification process open to any supplier.
- Processes in systems (traceable and auditable).

ETHICAL MANAGEMENT AND DEVELOPMENT OF SUPPLIERS AND SUBCONTRACTORS



- Communication channels available to suppliers: ASA + *Dígame* + whistle-blowing channel.
- Campaigns for extending the Company's principles and policies to suppliers.
- Specific development plans resulting from their supervision and monitoring.
- Development of medium to long-term partnerships.

MINIMISATION OF THE RISK ASSOCIATED WITH THE PROCUREMENT PROCESSES



- Identification of legal / business / technical / sustainable impacts and risks and categorisation of REE's suppliers based on their risk level.
- Establishment of requirements that mitigate said impacts and continuous verification of them in:
 - The supplier selection process and the awarding of contracts.
 - The qualification, subcontracting and corporate monitoring of suppliers.
- Acceptance of Supplier Code of Conduct and verification of compliance with said Code through social audits.
- Wide range of suppliers.

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DESCRIPTION OF THE SUPPLY CHAIN 102-9 / 204-1

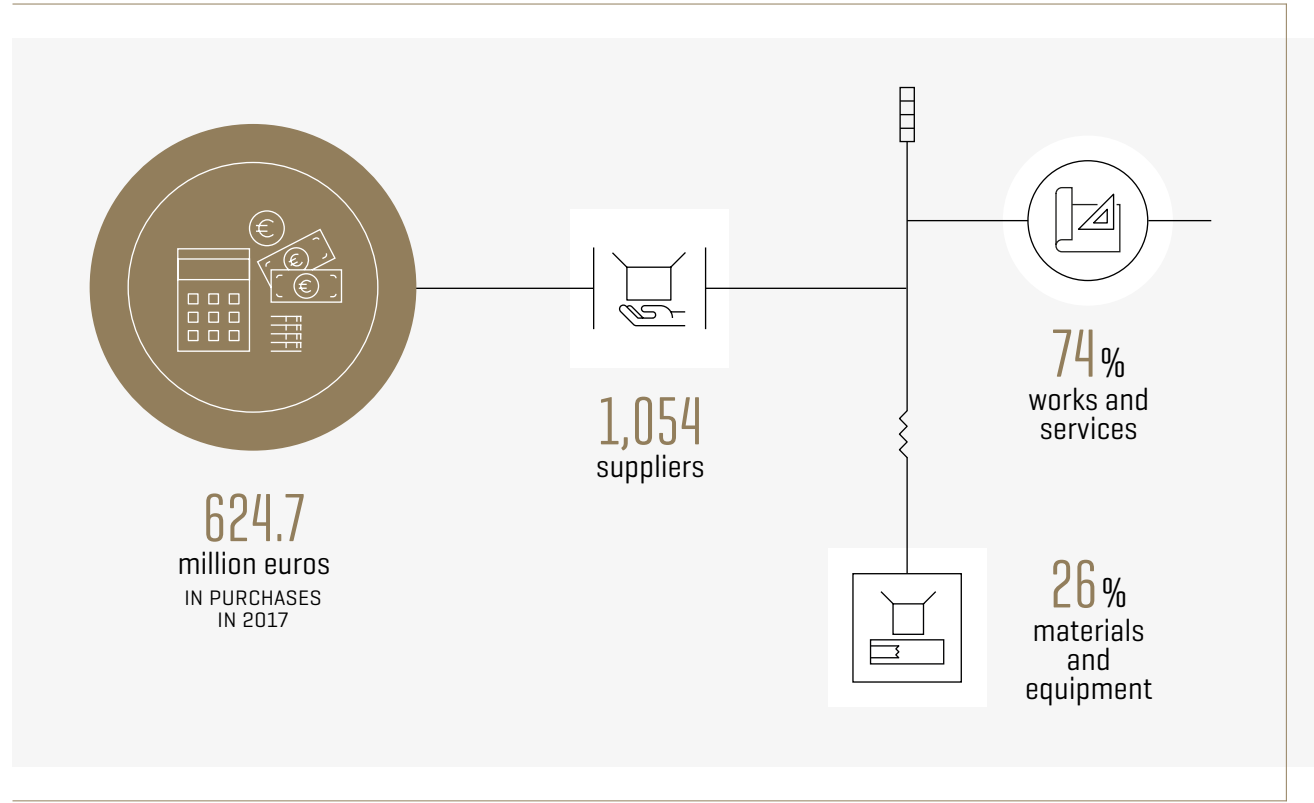
In 2017, the Company managed its procurement of goods and services (including the manufacture of materials and equipment and the execution of services and works) through 1,054 suppliers, for a total of 624.7 million euros. 74% of this amount corresponds to services and construction works, while the remaining 26% was for materials and equipment.

94% of the aforementioned amount was awarded to suppliers with head offices in Spain and 99% of purchases were made within the European Union.

In addition to the 1,054 suppliers mentioned with whom Red Eléctrica has worked, it is necessary to add 1,034 companies (subcontractors) that have also carried out work for the Company, so that the total number of companies that have worked within the framework of Red Eléctrica contracts stands at 2,088. In this context, it should be noted that the average time for managing subcontracting requests was 1.5 days, in line with that achieved in 2016.

In line with previous years, a limited number of suppliers still undertake the majority of works, in such a way that 20 suppliers (Top20) represent 57% of the total amount of work carried out in 2017.

In 2017, the total number of companies that have worked within the framework of Red Eléctrica contracts stood at 2,088.





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Risks and impacts identified in the supply chain / 308-2 / 414-2

The identification and prioritisation of the risks and impacts of our supply chain has allowed the Company to establish adequate controls for their minimisation.



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The sustainability assessment model of suppliers aims to promote their sustainable development to progressively increase the maturity of the supply chain in terms of sustainability.

During 2017, Red Eléctrica has drawn up a model for assessing the sustainability of suppliers. This model consists of 29 questions, grouped into 3 blocks: ethics and working conditions, environment and occupational health and safety. With this knowledge, the Company aims to promote the sustainable development of its suppliers to progressively increase the maturity of the supply chain in terms of sustainability.

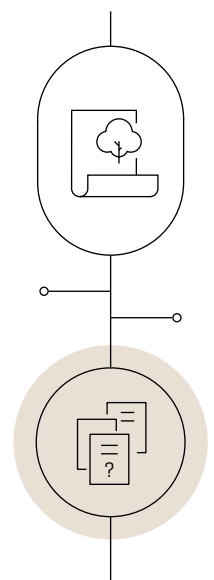
Among the initiatives addressed throughout the year and aimed at mitigating risks in the relationship with its suppliers noteworthy are:

- Addressing risks regarding legal infringements arising from the new legal framework according to the European Directive 2014/25/ EU of 26 February 2014, on

procurement by entities operating in the water, energy, transport and postal services sectors:

- The new general conditions of contract for equipment and materials, the supply of services and the provision of construction works have been updated.
- Criteria have been identified to generate shared value with strategic suppliers within the applicable legal framework.
- Dealing with the risk regarding the inability of suppliers to complete the execution of the works contracted by the Company:
- The increased control and monitoring of suppliers in financial difficulties, allowing the continuity of business

Sustainability ASSESSMENT MODEL



Consists of **29** QUESTIONS grouped in three blocks

- **Ethics and working conditions, the environment and occupational health and safety**

relationships with suppliers in a delicate financial situation.

- Dealing with the risk associated with the supplier's country of origin:
- As part of the business diversification strategy, the range of suppliers is being expanded by searching companies located in Asian, African, Central American and South American countries. Aware of the existence of certain risks in these countries such as political, CSR, climate, economic and legislative, a methodology has been established to identify specific requirements that these suppliers must meet.

During 2018, work is expected to continue advancing in terms of the sustainability requirements for suppliers located in countries with a potential risk in terms of social climate and working conditions. Work will also continue on the development of a specific impact matrix taking into account this variable regarding geographical location.



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PROCUREMENT PROCESS

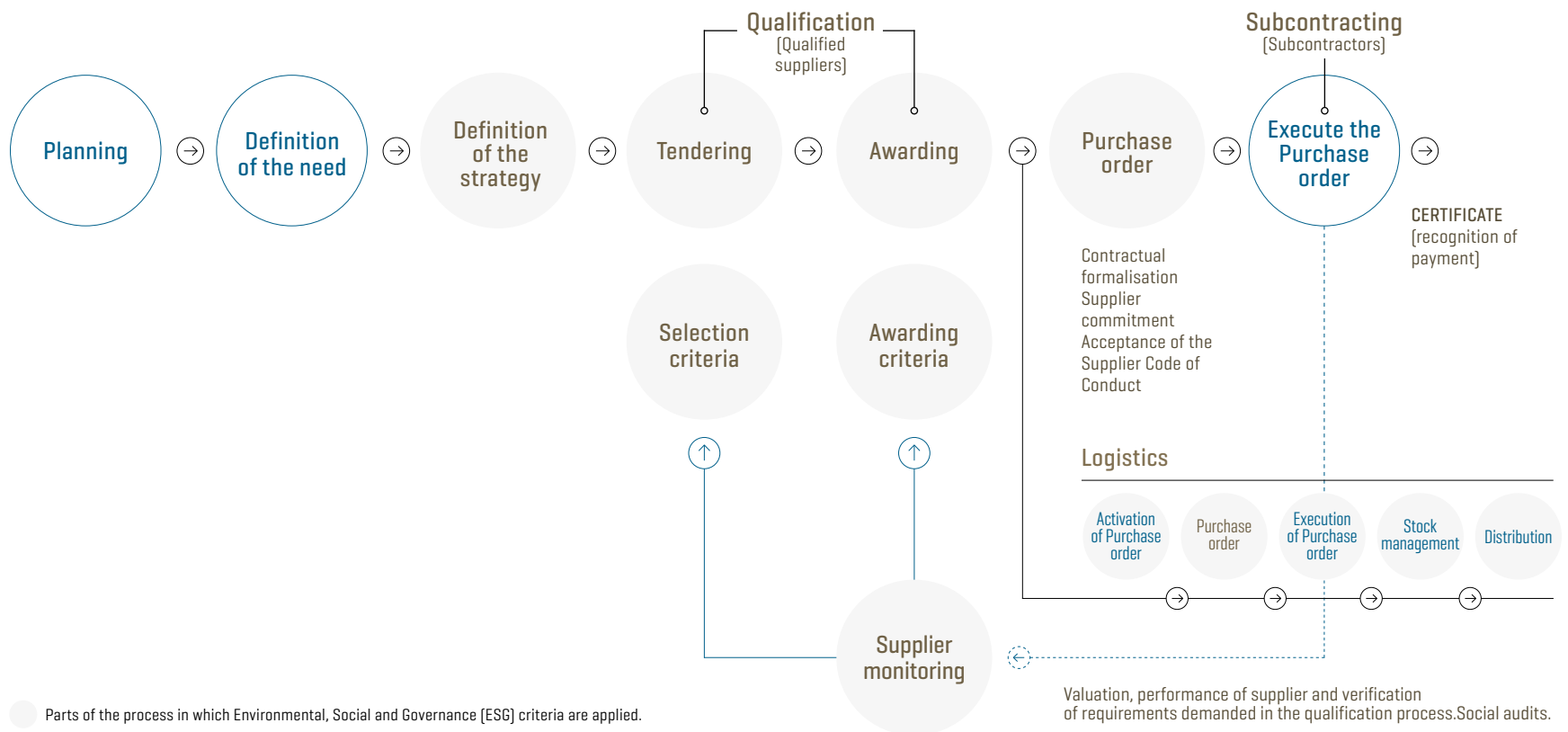
Red Eléctrica integrates criteria regarding occupational health and safety, the environment, ethics and working conditions requirements throughout its entire procurement process. Moreover, the contracting of Special Employment Centres

is promoted to execute certain services such as the ASA channel (Procurement Support and Helpdesk), which attends to around 1,500 supplier enquiries annually.

For relevant and recurring supplies, these requirements are verified initially in the qualification of

the supplier and, subsequently, monitored in an ongoing manner as part of the relationship of Red Eléctrica with its suppliers. For one-off purchases, the qualification process is conducted at the moment of tendering.

On the other hand, when the activity is relevant in terms of its nature and its magnitude and it is subcontracted out, the subcontractors involved must comply with the same requirements demanded from those suppliers who have been awarded contracts and have been previously qualified by the Company.



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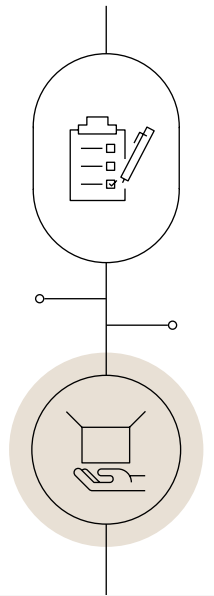
In 2017, the Company worked on initiatives aimed at obtaining the lowest total expected cost of the supplies purchased and the optimisation of the associated resources. In this regard, a methodology has been developed, called 'Total cost ownership', aimed at awarding purchases based on the total expected cost according to the life cycle of the supply.

QUALIFICATION OF SUPPLIERS
308-1 / 414-1

The Company's commitment in this area is to manage the requests from all companies that request supplier qualification. In 2017, 770 qualification requests were handled. These requests correspond to 377 suppliers (many opting to provide more than one type of supply) and affected supplies that require various verification processes depending on the impact they may have on sustainability:

- 23% of requests (corresponding to 102 suppliers) required specific verifications regarding occupational health and safety prevention.

Qualification
REQUESTS



In 2017

770

REQUESTS

were managed

-
Corresponding to 377 suppliers (many opting to provide more than one type of supply)



- 56% of requests (corresponding to 224 suppliers) required specific verifications regarding the environment.

- 100% of requests were verified according to labour practices and Human Rights criteria.

Additionally, in 2017, the redesign of the technical qualification of suppliers was addressed, seeking to improve its efficiency and effectiveness. In this regard,

work has been carried out on the definition of a supplier profile for each supply, through a series of questionnaires, with the aim of publishing the profile so that suppliers are aware of it prior to beginning the qualification process. In this way, transparency is increased, and the supplier's expectations are better managed.



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The Company continuously monitors the performance of the suppliers regarding their contracts, as well as the fulfilment of the requirements demanded from them at the time of qualification.

MONITORING AND DEVELOPMENT OF SUPPLIERS

The Company's commitment in this area is to continuously monitor the performance of suppliers within the framework of the contracts they have with Red Eléctrica and the fulfilment of the requirements demanded from them at the time of qualification.

As part of the due responsibility each area of the Company has regarding the monitoring of the performance of the suppliers who have contracts with them, the Procurement Area, in 2017, has carried out the following monitoring tasks, according to type:

• Business

- The financial solvency of all the suppliers with which the Company has contractual relations has been monitored and mitigating measures have been applied to

100 suppliers owing to their weak financial situation.

- Additionally, compliance with business requirements has been reviewed for 404 qualified suppliers for the Company's relevant supplies. As a result, 63 of them were permanently disqualified and, 1 temporarily disqualified.

- On the other hand, in order to provide a level playing field for the Company's supplier market, 259 supplies underwent a review process regarding the capabilities and resources of the associated suppliers [259 specialised suppliers] as a first step to establish the minimum requirements to be fulfilled by all these suppliers for each supply in question.

• Technical

- In collaboration with different areas responsible for the contracts,

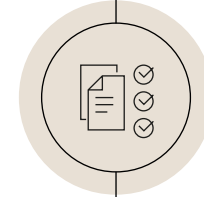
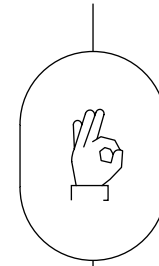
67 incidents have been analysed, affecting 60 suppliers related to performance in the execution of the works. As a result, 2 suppliers have been permanently disqualified.

• Corporate responsibility

- Social audits have been carried out on 75 suppliers [See details in the Social Audits section].

In addition to all of the above and in order to obtain an overall view of the supplier's situation, prior to their participation in tendering processes that have a significant impact on the Company, a comprehensive assessment was carried out [incorporating business, technical and corporate responsibility aspects] on 297 suppliers affecting 72 supplies. As a result of these assessments, 8 suppliers have been temporarily disqualified and 3 permanently disqualified.

Comprehensive ASSESSMENT OF SUPPLIERS



Carried out on

297 SUPPLIERS

relating to 72 supplies

Result: 8 suppliers temporarily disqualified and 3 permanently disqualified



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Red Eléctrica focuses on the areas of occupational health and safety, the environment and respect for human rights in its quest to achieve sustainability in the supply chain.



On the other hand, work has continued on the following initiatives aimed at improving the monitoring process:

- Definition of a communication methodology with suppliers in the monitoring process.
- Greater development and empowerment of the figure of the Key Supplier Manager to improve the management of the relationship with the most significant suppliers.
- Gradual implementation of service level agreements and performance indicators in contracts.

On the other hand, as part of its objective to extend its principles of sustainability throughout the supply chain, Red Eléctrica focuses on the areas of occupational health and safety, the environment and respect for human rights. In this regard, the Company monitors the severity and frequency of accidents of its contractors and

implements measures to ensure the safety of all persons who carry out their activity in Red Eléctrica's facilities.

With regard to environmental matters, the Company has developed a methodology for the measurement of emissions associated with the supply chain, as a key area in compliance with Red Eléctrica's Climate Change Commitment.

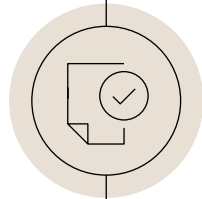
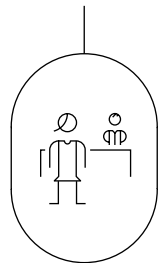
It should be noted that, in 2017, Red Eléctrica has made a guide available to all of its suppliers to help them incorporate sustainable aspects in their business management such as:

- The drafting of a code of ethics.
- The drawing up of a sustainability policy.
- The promotion of respect for human rights within the company and its supply chain.
- The identification and management of the company's stakeholders.
- The drafting of a periodic sustainability report.

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Social audits have led to improvements or action plans agreed with 63% of the suppliers. The monitoring of these plans has allowed Red Eléctrica to measure their evolution and verify the improvements implemented, and therefore avoid the need to disqualify any of the audited suppliers.

Code OF CONDUCT



75 AUDITS

conducted on suppliers during 2017
 -
 Regarding compliance with the Supplier Code of Conduct

SOCIAL AUDITS 308-1/414-2

In order to verify compliance with the Supplier Code of Conduct among our suppliers, during 2017 the Company conducted social audits on 75 suppliers. These audits, whose objective is to assess compliance with the Code of Conduct, focus on those supplies with a high potential or actual impact on working conditions and ethical behaviour, or on suppliers where an incident of an ethical nature has been detected.

As a result of the audits, improvements or action plans have been agreed with 63% of the suppliers. The monitoring of these plans has allowed Red Eléctrica to measure their evolution and verify the improvements implemented.

Additionally, it should be noted that the results found in 2017 have not been significant enough to result in the disqualification of any of the audited suppliers.

It should be noted that all our suppliers explicitly accept the Supplier Code of Conduct in the acceptance of the purchase order, thereby accepting the possibility of being audited to verify compliance with said Code.

RED ELÉCTRICA integrates criteria related to occupational health and safety, the environment, ethics and working conditions throughout its procurement process.



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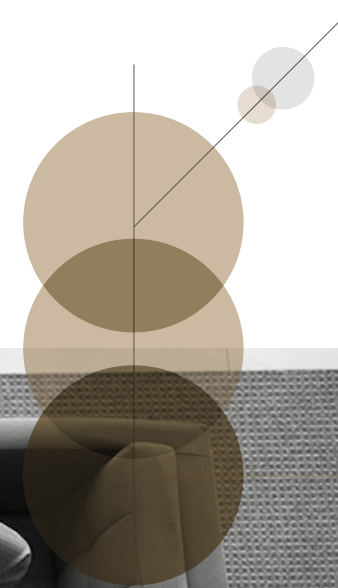


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Customer orientation /103-1 /103-2 /103-3

CUSTOMER PROFILES /EU3

The customers of Red Eléctrica are those organisations and companies that receive the services provided by the Group and are grouped into the following broad categories:

- **Regulatory bodies**
[Ministry of Energy, Tourism and Digital Agenda (MINETAD) and National Commission on Markets and Competition (CNMC)], responsible for regulating and evaluating the management, and establishing the remuneration of the Company's activity. Also, the General Directorates of Energy of the various Autonomous Communities, in charge of the regulation in the scope of their management.

- **Subjects participating in the electricity market.**
These are all the market participants [544 in December 2017], who participate in organised markets, or execute bilateral contracts with the physical delivery of energy.



In accordance with Law 24/2013 of the Electricity Sector, the system operator must exercise its functions under the principles of transparency, objectivity, independence and economic efficiency.



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Red Eléctrica has a System Operator Code of Conduct that guarantees transparency, confidentiality, ethics and objectivity in its functions as operator of the electricity system.

TRANSPARENCY, NEUTRALITY AND INDEPENDENCE

Red Eléctrica has a System Operator Code of Conduct, which guarantees transparency, confidentiality, ethics and objectivity in its functions as operator of the electricity system. And, at the same time, it performs its business management under the principles of neutrality, independence and economic efficiency on which it bases its success as manager of the Spanish electricity system.

The Company has the duty to publish the information about the results of the markets or operating processes of the system, guaranteeing the confidentiality of the data provided by the market participants. To do this, the Company adheres to applicable legal requirements as well as other guidelines, and sets this out in its internal procedures. The communication and publication of information takes place through various channels, as shown on the next page.

• Operators of the interconnected electricity systems.

These are the distribution companies, the operators of the European energy contracting markets, participants in the coupling processes of the organised markets (OMIE, EPEX and NordPool), the different providers of system ancillary services and the suppliers

of the interruptibility demand-side management service.

• Other groups. Requesters of local operation and maintenance services, and those requesting adaptations or changes to the routes of high-voltage electricity lines.

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BASIS FOR THE PUBLICATION OF INFORMATION REGARDING THE RESULTS OF THE MARKETS AND PROCESSES OF SYSTEM OPERATION

LEGISLATION	PROCEDURE GUIDE FOR THE EXCHANGE OF DATA (ENTSO-E)	OTHER GUIDELINES
<ul style="list-style-type: none"> Regulation (EU) 543/2013 on Transparency. Regulation (EU) 1227/2011 on Wholesale Energy Market Integrity and Transparency (REMIT). Implementing Regulation (EU) 1348/2014 of the EC, of 17 December, on data reporting. Royal Decree 2019/1997, of 26 December, by which the Electricity Power Production Market is organised and regulated. 	<ul style="list-style-type: none"> Royal Decree-Law 6/2000, of 23 June, on Urgent Measures for Intensification of Competition in Goods and Services Markets. Royal Decree 216/2014, of 28 March, which establishes the methodology for calculating the voluntary price for the small consumer of electricity and the legal framework for contracting it. 	<ul style="list-style-type: none"> Regulation (EU) 2017/2195 of the European Commission establishing a guideline on electricity balancing. Regulation (EU) 2015/1222 of the European Commission establishing a guideline on capacity allocation and congestion management. Regulation (EU) 2017/1485 of the European Commission establishing a guideline on the electricity transmission system operation.



INFORMATION PLATFORMS

E-SIOS	ENTSO-E TRANSPARENCY WEB	IESOE WEB	SMARTVIU APP
<p>Platform to ensure compliance with the legal requirements for communication and publication of information. There is a web for market subjects, accessible through a digital certificate http://sujetos.esios.ree.es and a public website https://www.esios.ree.es. The public website also allows temporary analysis of the services managed by the system operator.</p>	<p>Since January 2015, Red Eléctrica has forwarded 100% of the data on electricity markets to the ENTSO-E transparency platform www.transparency.entsoe.eu, in accordance with the Transparency Regulation.</p>	<p>Red Eléctrica manages this regional information platform www.iesoe.eu, where the operators of the French, Portuguese, Moroccan and Spanish electricity systems publish, in a centralised way, the capacity and usage data of the electricity interconnections between these countries.</p>	<p>Application for mobile devices that shows in real time the status of the Spanish Peninsula Electricity System through the monitoring of a series of relevant indicators on System Operation.</p>

OTHER CHANNELS OF COMMUNICATION

VOLUNTARY PRICE FOR THE SMALL CONSUMER (PVPC)	CTSOSEI	REPORTING TO ACER
<p>Since 2014, Red Eléctrica has included among its publications the information related to the PVPC, in compliance with the provisions of Royal Decree 216/2014.</p>	<p>In this committee, organised bimonthly by Red Eléctrica, market subjects and regulatory bodies are provided with information on the operation of the electricity systems of the Iberian Peninsula and information on the ancillary services markets for electricity systems in Spain and Portugal, and energy exchanges through the interconnections between the Iberian electricity systems.</p>	<p>In application of the Commission Implementing Regulation (EU) 1348/2014 of the EC, since April 2016 Red Eléctrica is reporting to ACER (Agency for the Cooperation of Energy Regulators) the results of the explicit capacity auctions and the programme's in-use nominations of the capacities reported by the participants in said auctions.</p>





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Coinciding with the commissioning of the ENTSO-E Transparency Platform, the structure and contents of the e-sios public website has been renovated to present data in a clearer, more modern and more educational manner.

In 2015, the Company strengthened its commitment to transparency in order to fully implement the internal energy market by completely renovating the structure and contents of the e-sios public website, to present data in a clearer, more modern and more educational manner, coinciding with the commissioning of the ENTSO-E Transparency Platform. After two years have elapsed since the implementation of this new e-sios public website, Red Eléctrica will launch a new process to identify possible improvements, through the participation and collaboration of market participants.

In relation to the ENTSO-E Transparency Platform, and in line with the provisions of article 5 of the Transparency Regulation, the changes that have resulted from the first revision of the Procedure

Guide for the exchange of data with said platform will be implemented in 2018, in order to improve the quality of the information published. A review of the Procedure Guide has also been initiated to incorporate the new information that must be published in accordance with that set out in the European Guidelines on Electricity Balancing [EU Regulation 2017/2195] and Electricity Transmission System Operation [EU Regulation 2017/1485].

Additionally, the Company participates in, and spearheads in some cases, working groups that aim to increase communication and transparency, such as the Incident Analysis Group [GRAI].



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MANAGEMENT OF INCIDENTS AND GRIEVANCES

Red Eléctrica manages the grievances associated with the impact of its activities and the services it offers, through the application of clearly defined and precise criteria, to ensure that the management of the grievances is carried out under criteria of transparency, complete objectivity and non-discrimination.

To this end, the **e-sios website** for market agents contains a 'Grievances' section, which allows the online processing of grievances regarding the system ancillary services markets and the international energy exchange schedule managed by the system operator. In addition, market agents can consult the status of their grievances and obtain information on how they are being dealt with. Red Eléctrica also publishes, on this website, periodic reports on incidents identified, the handling of the grievances received, and the solutions adopted.

SATISFACTION SURVEYS OF CUSTOMERS AND BUSINESS AGENTS

Red Eléctrica carries out satisfaction surveys every two years, focused on its customers and business agents. The last one conducted in 2016 provided an overall average rating of 8.3 out of 10. Based on these results and on the analysis of the requirements and expectations gathered, the 2017-2018 Improvement Plan was drawn up, which contained 28 actions. The Plan, as with the final results obtained, is notified to customers and business agents who took part in the survey.

In 2017, a project was carried out to improve the voice of the external customer in order to streamline the process for gathering and processing the information regarding satisfaction levels, as well as to facilitate the implementation of improvement actions resulting from the analysis of requirements and expectations.

The customer satisfaction survey conducted in 2016 obtained an overall average rating of 8.3 out of 10.

Key indicators

	2015	2016	2017
Number of applicable grievances related to ancillary services markets and the international energy exchange schedule	3	0	2
Applicable grievances per 1,000 GWh of energy managed in the ancillary services markets.	0.17	0	0.10
Percentage of grievances resolved (%)	100	-	100

Satisfaction indicators of customers and market agents [1]

	2012	2014	2016
Overall satisfaction level	8.0	8.1	8.3
Level of satisfaction of quality factors	7.7	7.9	8.0
Level of satisfaction of services provided	7.7	7.7	8.1
Customer attention	7.9	7.7	7.9
Evaluation of improvement actions undertaken as a result of the previous satisfaction survey.	6.9	6.6	7.1

[1] Survey carried out every two years



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CONTRIBUTION TO SOCIAL, ECONOMIC AND ENVIRONMENTAL DEVELOPMENT

Contribution to social, economic and environmental development

Commitment to society



Tax transparency

Participation in organisations and associations

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 society through social, economic and environmental development, whereby its social footprint is one of the key drivers of its corporate management.

In this regard, the Red Eléctrica Group takes on the following commitment a sustainability priority:

Contribute to the social, economic, and environmental development 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 that is perceived by society in general.

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COMMITMENT TO SOCIETY





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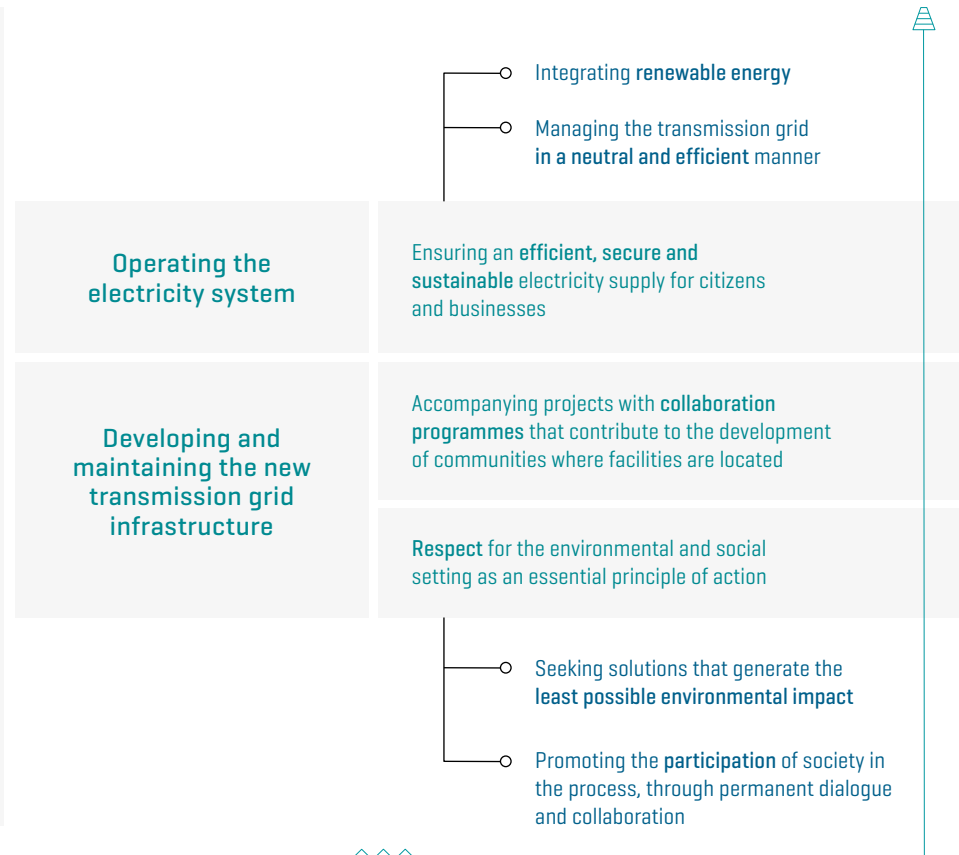
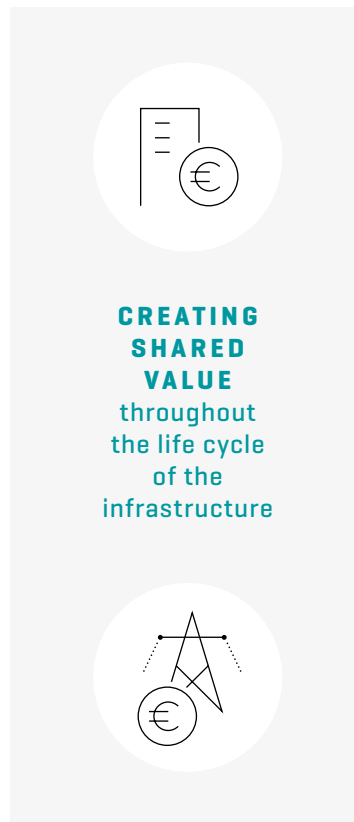


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Commitment to society / 103-1 / 103-2 / 103-3

Red Eléctrica focuses its socio-environmental commitment on the creation of shared value with society, promoting actions and investments aligned with its business objectives. At the same time, this commitment generates value for the Company while having a positive impact on the territory and its inhabitants. In turn, this represents a contribution of the Company to the achievement of various challenges such as those related to the United Nations' Sustainable Development Goals or those addressed in the European 2030 Energy Strategy.

Similarly, Red Eléctrica accompanies its projects in the territory with collaborative programmes that generate shared value in the communities in which the Company's facilities are located.



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SOCIAL COMMITMENT

Red Eléctrica's social programme mainly includes actions aimed at the socio-economic development of the territory; the conservation, protection and enhancement of the natural heritage of the municipalities; the dissemination of knowledge regarding how the electricity system works; and transparency in reporting.

Socio-economic development of the territory

In 2017, Red Eléctrica has promoted and collaborated on more than 260

initiatives, among which we can highlight construction projects or improvement of municipal infrastructure, collaboration on projects of social relevance with an impact on tourism, promotion of the cultural wealth of the territories and projects for the restoration of emblematic buildings, among others.

Protection of natural heritage

One of the challenges undertaken by Red Eléctrica in keeping with its biodiversity commitment is to promote the conservation

Social innovation: one step further in the creation of shared value

Red Eléctrica is committed to social innovation as a reinforcement to its approach to generate shared value with society and its contribution to solve the current challenges of the territories in which its facilities are located; considered as an additional element of its business model.

For this, the Company has created a **generic social innovation model** based on the management of the territory, conceived as an element that determines the quality of life of the populations living there and which may have an impact on their development.

Through this model, Red Eléctrica provides the relevant knowledge and training, so that the public can have a positive impact on the areas in which they live.

Associated with the transmission grid investment projects, the model will help identify issues, needs and opportunities in each territory in order to later collaborate with all the different players in order to agree on innovative and more effective solutions for their social, economic and environmental development.

of natural heritage through active participation or the promotion of projects in collaboration with the public administration, NGOs and other stakeholders.

In this regard, as indicated in the 'Biodiversity' section in chapter

The Red Eléctrica Marine Forest: project for the recovery of Posidonia oceanica seagrass meadows / 304-3

Posidonia oceanica is a marine plant endemic to the Mediterranean. It forms a habitat of priority interest as it is an essential ecosystem for many organisms to complete their life cycle. Posidonia contributes to the control of water quality and the protection of the coastline, and also constitutes one of the main CO₂ sinks in the sea.

The Posidonia seagrass meadows can be affected due to various reasons, among them the construction works for submarine electricity cables, and for this reason, Red Eléctrica decided to promote this Project.

· **2012-2016:** an R&D+i project was carried out in collaboration with the Mediterranean Institute for Advanced Studies [CESIC-IMEDEA], through which it was possible to determine the feasibility of

6, the Company participates in various projects, mainly related to the conservation of birdlife and the restoration of habitats. Among the latter, noteworthy are the 'Red Eléctrica Forest' and the 'Red Eléctrica Marine Forest'

planting *posidonia oceanica* using fragments and seeds grown in the laboratory and later replanted on the seabed.

· **2017:** agreements signed with CSIC and the Balearic Islands Government and work began on the actual restoration of 2 hectares of *Posidonia oceanica* seagrass meadows in a degraded area of Pollensa Bay (Balearic Islands), following the methodology which resulted from the research carried out.

The *Posidonia oceanica* seagrass meadows recovery project received the 'Good Practice of the Year Award 2017' from the Renewable Grid Initiative [RGI] in the Environmental Protection category





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Red Eléctrica Forest / 304-3

Started in 2009 and of an ongoing nature, this project is twofold: to offset part of Red Eléctrica's emissions through planting trees and the recovery of degraded natural areas of public 'common' land, thus contributing to the conservation of biodiversity. This initiative also seeks to contribute to the development of local economies by contracting work out to companies or groups in the area, and also raise awareness and involve the local population and Company employees.

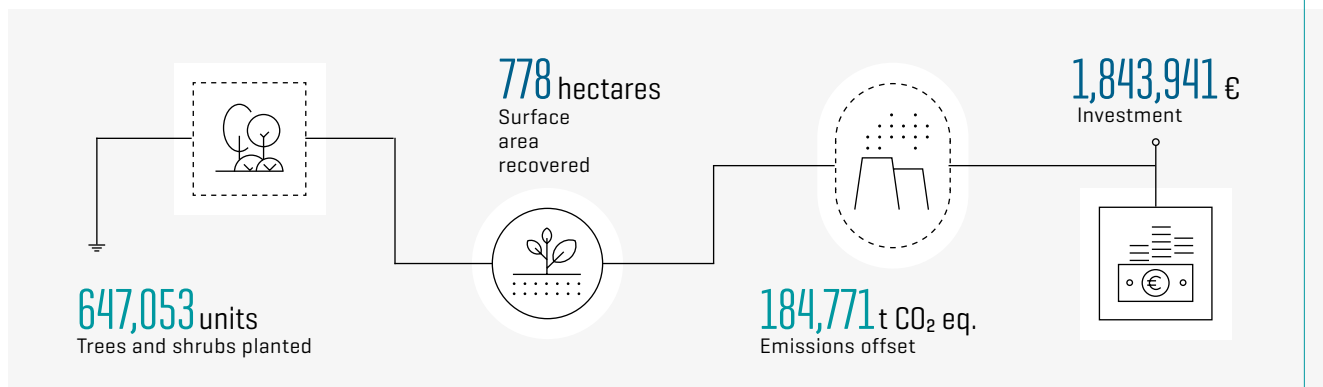
Relevant milestones in 2017
Firgas Forest (Gran Canaria). 17 hectares have been restored on the Firgas mountain, within the protected natural area of the Doramas Rural Park, with 8,908 native trees characteristic of the Canary Islands' *monteverde* ecosystem [made up of laurel forest and evergreen heathland]. In addition to greatly improving the landscape, the restoration of this space will contribute to the fight against desertification and the reintroduction of the Laurel pigeon on the island. Throughout the next year various awareness and promotional activities regarding the recreational use of the area will be conducted.

Chajaña Forest (Tenerife). Work has begun on the restoration of 23 hectares in the Corona Forestal Natural Park [municipalities of Arico and Fasnia]. In addition, work is being done on the design of an ethnographic route through the different forest areas.

Asturias Forest. The signing of an agreement for the restoration of 29 hectares in the Cordel de Santín and San Fernando highland areas, in the municipality of Boal, has been approved.



THE RED ELÉCTRICA FOREST IN FIGURES 2009-2017



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On the other hand, and within the framework of the Company's forestry management (explained in greater detail in the 'Biodiversity' section of chapter 6), Red Eléctrica continuously collaborates actively with public administrations involved

in forestry management, through the signing of collaboration agreements (currently 12 agreements in force) that involve the undertaking of various actions aimed at the prevention and fight against forest fires.

Actions linked to collaboration agreements for the prevention and fight against forest fires 2017

- **Development of a network of surveillance systems** and improvement of communications in the Bierzo region (Castilla y León), allowing fires to be detected faster and earlier, and enabling greater coordination and response capacity.
- **Creation of a fire break** in the municipality of Andraxt (Majorca).
- **Selective clearing of vegetation** for fire prevention in Vizcaya.
- **Purchase of equipment for firefighting crews** and the installation of a water hydrant point for extinguishing fires (Navarra).
- **Training and awareness actions:** informative campaign in Andalusia, providing material to raise awareness in Aragon, courses in La Palma on fire prevention and how to extinguish fires safely, management courses in extinguishing forest fires in Extremadura, collaboration in the Campaign 'El Bosc Vital' (Valencia), drafting of a volunteering project in Tenerife and sponsorship of the 4th Training workshops on forest fires and international awards for innovation and management in the fight against forest fires (2nd edition) in Castilla-La Mancha.

TRAINING PROGRAMME
in the prevention and fight against forest fires 2012-2017: 6,200 attendees (1,556 in 2017).

Dissemination of knowledge
Within the scope of **knowledge dissemination**, Red Eléctrica plays an active role in disseminating and raising awareness on how the electricity system works as a whole, as we are aware that a more informed society has a greater capacity to develop and maintain a sustainable energy model that effectively meets the energy needs of citizens.

Red Eléctrica also pays special attention to higher education and training in the area of energy and the environment. During 2017, noteworthy was its support for the training of 1,021 students of masters or specialisation courses from more than 34 schools and universities, through 51 visits to Company facilities. Similarly, noteworthy are the 15 collaboration agreements signed with universities and training entities, and the collaboration on the teaching of conferences and lectures at universities, in which Red Eléctrica participates to disseminate information on aspects related to the management of electricity grids and systems.

'A highway behind the wall socket' exhibition

The objective of this exhibition is to explain the electricity supply process, from generation to consumption, showcasing the activities of the Company as TSO of the Spanish electricity system, in addition to making citizens aware of the need to consume electricity in an efficient and responsible manner. Also, at the same time, the exhibition serves as a communication vehicle to improve citizens' understanding of the need to develop electricity infrastructure, thus facilitating their implementation in the territory. In this regard, in 2014 the exhibition was chosen by the Directorate General for Energy of the European Commission as one of the five best practices of the European TSOs aimed at facilitating the social acceptance of the projects.

In April 2017, this travelling exhibition moved to the City of Arts and Sciences in Valencia, where it received more than 560,000 visitors. This exhibition, which began its journey in 2010, has travelled to nine Spanish cities accumulating a total of **more than 900,000 visits**.



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On the other hand, during 2010, 109 visits were organised to the electricity control centres CECOEL and CECRE, 17 to the control centres on the islands, and 47 to various transmission grid facilities nationwide. In total, 1,745 people visited the Company's facilities and control centres.

REE in the classroom

Education for children is a high priority for Red Eléctrica. This project is aimed at helping children become more environmentally-friendly and efficient consumers in the future and, through their actions, contribute to the sustainability of the electricity system.

For this reason, in 2015, Red Eléctrica created 'entreREdes' <http://www.ree.es/en/publications/education/study-while-you-play-entreredes>] a digital educational game through which students of secondary education learn about how the electricity system works in a fun and entertaining way.

Until 2017, the Company, in collaboration with educational institutions, organised 18 training activities within the framework of the 'Juego entreREdes' project, in which more than 8,000 schoolchildren have participated. According to the surveys they have completed, 86.5% liked the game a lot and 96.1% would recommend it to their teachers as an educational resource to be used in class.



66% of the information published in the 'Entrelíneas' blog, is focused on highlighting sustainability projects.

Information transparency

Transparency in the disclosure of information along with an educational approach has continued to be the basis of Red Eléctrica's relationship with the Media, as well as with other stakeholders. Efforts have focused on reporting on the development of the core activity - the transmission of electricity and system operation - as well as the Company's international business and all its activity in the field of sustainability.

Communication on the regulated activity has focused on the projects included in the 2015-2020 Strategic Plan, paying special attention to the importance that the infrastructure has in guaranteeing the quality and security of supply in the whole of the Spanish electricity system and in the territories where facilities are located.

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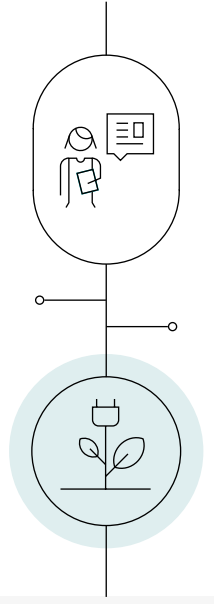
Noteworthy is the communication regarding the **new energy model of the Canary Islands and the new submarine interconnection with France across the Bay of Biscay.**

In the first case, highlighting the importance of the Company in the implementation of the new model, based on renewable energy and interconnections between islands, and in the case of interconnection with France, the central messages have been the need for new links with Europe to increase security of supply and the development of a single European electricity market.

In the Canary Islands, information on the Soria-Chira pumped-storage hydroelectric power station has been relevant, both with the issuance of a press release at the beginning of the public information and consultation process and with the published articles and requests for information addressing this matter.

On the other hand, it should be noted that the information disseminated on environmental projects, innovation, as well as other initiatives related to human resources, social responsibility and good governance have accounted for 25% of the total number of press releases issued. 66% of the information published in

Entrelíneas **BLOG**



66 %

of the information published

- was focused on highlighting sustainability projects developed and carried out by the Company.

The Entrelíneas blog has become a useful tool to publicise our activity in a way that is both educational and entertaining.

the 'Entrelíneas' blog was focused on highlighting the sustainability projects developed and carried out by the Company.

digital media has been promoted, including opinion articles from managers, interviews and special reports.

At an international level, noteworthy is the information on investments and the awarding of contracts in Peru, as well as on the commissioning of facilities in Chile.

In the same way, the use of the Company's digital channels, with the use of social networks, the Press Office of the website and, especially, the Entrelíneas blog (<http://entrelíneas.ree.es/en>) has become especially relevant. In 2017, 79 news articles were published in the 'Latest news' section of this blog.

Promotion of digital channels

Due to the transformation process of the Media, whose digitalisation is ever more apparent, the publishing of news related to the Company in

Key indicators (information issued)

	2015	2016	2017
Press releases	79	64	71
Press conferences and meetings	23	10	14
Interviews and statements	69	74	57
New content in the blog	64	107	81

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Corporate website

The corporate website www.ree.es/en is an interactive and informative space that contributes to reinforcing the Company's brand and increasing knowledge on its activities and maintaining a direct channel of contact with its stakeholders.

In 2017, noteworthy was the launch of several relevant web communication projects for various business areas of the Red Eléctrica Group. Directly related to the electricity transmission sector were both the launch of the European Innovation Programme called Grid2030 and the development of an interactive map for monitoring the management status of requests for access and connection to the transmission grid. The Grid2030 programme is a multi-year collaborative innovation programme aimed at researchers, start-ups and companies that seek to explore disruptive innovation in the electricity transmission sector. From the corporate website, a specific section has been set up to provide information and for the integral management of the programme.

In addition, the Reintel website www.reintel.es/en, was launched in 2017, a subsidiary belonging to the

Group that operates as a neutral supplier of telecommunications infrastructure. In general, on this website, Reintel customers and users will find detailed information about the Company's product portfolio and the infrastructure it operates and a map, by province, that shows the deployment of the dark fibre optic network.

Also noteworthy is the important role of Red Eléctrica as a reference for information on the electricity system, providing various publications and statistics on the operation of the Spanish electricity system on its website. In 2017, worth highlighting was the publication of a specific report on the evolution and operation of renewable energy in Spain.



CORPORATE WEBSITE INDICATORS 2017





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Amicable agreements were reached with 94% of landowners affected by projects whose permitting process was completed in 2017.

TIES WITH THE COMMUNITY 103-1 / 103-2 / 103-3 / 413-1

Red Eléctrica promotes and maintains a permanent relationship with the local communities in which its facilities are located, not only during the process of construction of new infrastructure but also throughout the entire lifecycle of the facilities. To do this, it has an organisational structure distributed nationwide that facilitates institutional communication and collaboration with administrations and public and private institutions.

In 2017, noteworthy was the signing of 96 collaboration agreements with public and social entities for the execution of projects mainly regarding socio-economic, environmental, educational and cultural development aspects.

In the case of local councils, and in relation with the construction of new infrastructure, the Company fosters close-knit ties with communities to inform on the need for facilities and their role within the transmission grid, as well as to promote dialogue that facilitates the carrying out of projects in a sustainable manner and with complete social acceptance.

AN OPEN AND PARTICIPATIVE STRATEGY TO ESTABLISH RELATIONSHIPS OF TRUST AND COLLABORATION THAT MAKE IT POSSIBLE TO:

Integrate the presence of the Company into the social, environmental and institutional fabric of the territories in which investment projects are implemented, through collaboration agreements.

Explain and disclose the need for projects and give the appropriate response to the request for information generated by society.

Maintain information transparency and facilitate maximum public participation.

Find a balance between the general interests of the territory and the needs of the project, thus facilitating its social acceptance.

Promote the maximum social and institutional consensus in the implementation of investment projects.



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Stakeholder management for investment projects in the transmission grid

Red Eléctrica has set up a stakeholder management system related to investment projects in the transmission grid in order to improve the efficiency in the implementation of its infrastructure in the territory.

The objective is to integrate a systematic and homogeneous way of managing stakeholders in the projects, so as to enhance the sustainability of Red Eléctrica's activity, while generating shared value for society.

This system incorporates the principles of the corporate stakeholder management model: transparency, dialogue and mutual collaboration, as well as the main elements of its management, stakeholder identification, knowledge of their needs and expectations, establishment of the commitments and relationship frameworks and

the development of evaluation and improvement tools.

The perspective is to develop a methodology applicable to any type of project, adaptable to the unique aspects of each case, with an application in the Company that enables continuous improvement and addresses the change management involved in the process.

The system includes a continuous assessments of the actions to be carried out with the stakeholders that intervene in the projects, which will allow the rapid adaptation of the management to the successive changes in society, accelerating the Company's responses to its needs and expectations.

CORPORATE VOLUNTEERING

Since 2005, the promotion of corporate volunteering actions has been one of the Company's cornerstones, the result of the firm commitment to improving society that has allowed us to channel the spirit of solidarity and address the social concerns of our employees.

During 2017, we have designed a new more ambitious corporate volunteering model that seeks to respond to the socio-environmental needs and general interests of the territories in which our facilities are located, showcasing corporate values through the voluntary participation of employees. Based on this, corporate volunteering programmes must be aligned with the Sustainability Commitment taken on by the Company and must contribute to achieving the Sustainable Development Goals, meeting the needs of society.

The plan for the period 2018-2020, approved by the Sustainability Steering Committee, responds to a two-fold approach: strategic and transformational. In the coming years, we will focus our efforts on the carrying out of actions aimed at developing employee competencies and the creation of value in the territory. On the one hand, the plan seeks to increase the level of internal talent in corporate volunteering, and on the other hand, implement voluntary actions adapted to the different realities of the territories, which provide innovative solutions to social and environmental issues.

Corporate volunteering programmes must be aligned with the 2030 Sustainability Commitment taken on by the Company and contribute to the achievement of the Sustainable Development Goals



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The actions carried out in 2017, which respond to the new strategic approach, have contributed primarily to improving the quality of life of groups at risk of social exclusion, promoting employability and addressing specific and real demands of society. With the development of these initiatives we have helped, through the solidarity and voluntary involvement of our employees, to transform the world and contribute to meeting the global objectives of the 2030 Agenda for Sustainable Development.

MAIN VOLUNTEERING ACTIONS IN 2017



COMPANIES4SDGs

The Company has joined the COMPANIES4SDGs campaign aimed at promoting the knowledge and application of the Sustainable Development Goals in the business world. As part of this campaign, Red Eléctrica participates in multi-company volunteering activities aligned with the 17 SDGs.



Mentoring Programme

Red Eléctrica collaborates in the CAMPUS mentoring programme of the A LA PAR Foundation in which the volunteers act as mentors for students with intellectual disabilities. Throughout the academic year, young people receive training sessions accompanied and advised by their mentors to help them better integrate into the world of work.



Employment School

Volunteers from the Company participated in the ADECCO Foundation's Employment School programme that seeks to improve employability and inclusion into the day-to-day working environment, of high-potential people with disabilities. Workshops focus on addressing key areas that a person must master in order to effectively and independently seek employment.



Action Against Hunger 'Challenge'

Red Eléctrica has left an important solidarity footprint in the Action Against Hunger 'Challenge' 2017 that aims to combat child malnutrition and eradicate hunger [SDG2]. In this edition, employees and relatives, distributed across eight cities, ran a total of 3,000 km, which translates into a total of 30,000 days of therapeutic nutritional treatments for children from disadvantaged populations.



'Companies Solidarity Day' (DSE)

The Company participated in the latest edition of this corporate volunteering day organised by *Cooperación Internacional*. Volunteers showing their high level of solidarity accompanied various vulnerable groups, spread across six cities nationwide, such as homeless, disabled or elderly, and engaged in leisure activities with children at risk of social exclusion.



'A Smile for Christmas' Campaign

Red Eléctrica has collaborated on the solidarity campaign to collect toys 'Una Sonrisa por Navidad' organised by *Cooperación Internacional*, which aims to send a Christmas gift to thousands of children in situations of poverty and vulnerability. The generous response of employees from various territories has contributed to bringing smiles to the faces of many children nationwide.



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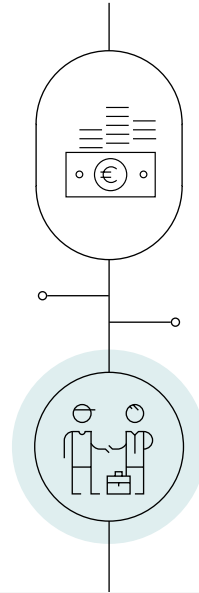
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INVESTMENT IN THE COMMUNITY

Within the framework of the business development strategy, Red Eléctrica considers and promotes social action as an essential element of its Corporate Responsibility Policy, which is carried out through actions defined in collaboration with various institutions and public entities and to respond to the demands for collaboration raised by stakeholders.

In 2017, the Company contributed 6.5 million euros (1.05% of its net profit) to the development or promotion of social initiatives; an amount obtained by applying the methodology of the LBG (London Benchmarking Group).

Investment in THE COMMUNITY



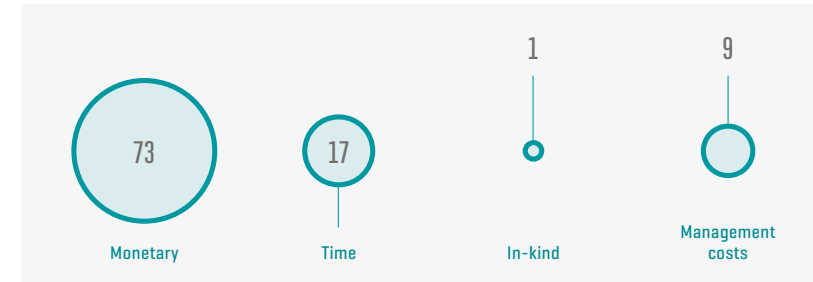
6.5 M€

earmarked for the development and promotion of social initiatives

59% aligned with the activities of the business

CONTRIBUTION 2017

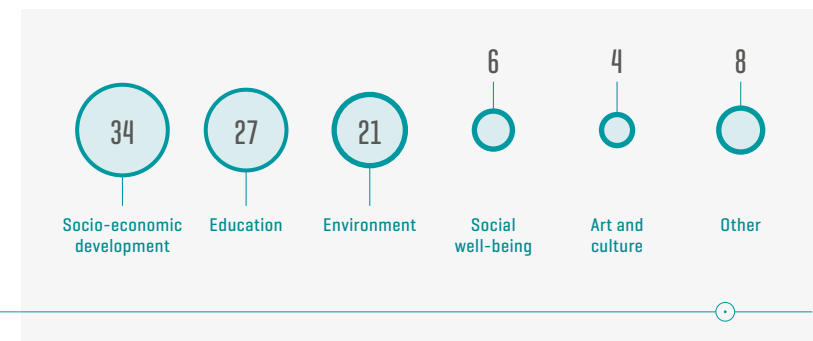
Type of contribution %



Reasons for action %



Area of action of social initiatives %



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ECONOMIC AND SOCIAL CONTRIBUTION OF PROJECTS

The activity carried out by Red Eléctrica has undeniable benefits for society, among which the most obvious is that of maintaining the continuity and security of electricity supply with high levels of quality.

In addition to the aforementioned, the high level of investment made by Red Eléctrica entails other benefits for society in that the investment has a boosting effect on the country's economic activity. By encouraging production, an increase in wealth is generated (measured through GDP) and, as a consequence, employment is promoted, and public administrations have more income that can be devoted to improvements in the general well-being of society.

Red Eléctrica has adopted a methodology based on the multipliers derived from the Input-Output Tables that allows the level of general activity that is generated from an initial investment to be estimated. The calculations are made taking into consideration three major impacts: direct, indirect and induced.

IMPACTS OF THE INVESTMENTS

DIRECT IMPACT

Estimation and valuation of the following: the production chain, the creation of employment and the incomes generated in the national economic system as a result of an initial investment.

INDIRECT IMPACT

In order to execute the initial investment, the direct awardees need to acquire other goods and services (intermediate consumption) from the rest of the production systems, which, in turn, demand other goods and services from their own suppliers, which ends up generating new income and new employment.

INDUCED IMPACT

This impact reflects the effect derived from all the income generated in the previous stages. In this regard, it incorporates 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.



In 2017, Red Eléctrica made a total investment in the transmission grid of 412 million euros, of which it is estimated that 102 million euros were allocated to the purchase of equipment and materials necessary

to carry out the activity. The remaining, 310 million euros, corresponds to direct investment in Spain whose impacts, after applying the methodology adopted, are outlined below:

Total impact of the investment in the transmission grid

	Direct	Indirect	Induced	Total
Production (m€)	310	300	30	640
Income - GDP (m€)	121	126	10	257
Employment (No. of jobs)	2,100	2,276	307	4,683
Tax revenue (m€)	48	48	4	100



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In 2017, Red Eléctrica's contribution to the country's GDP has amounted to 257 million euros, generating work activities for an equivalent of 4,683 jobs and revenues for the public coffers of 100 million euros.

The investment made in Spain has generated a production in the activity sectors involved of 640 million euros, which represents more than twice the direct investment made by Red Eléctrica in Spain. This has contributed 257 million euros to the country's GDP [it represents around 13% of the revenue of the Red Eléctrica Group], which has led to the generation of work activities for an equivalent of 4,683 jobs. Therefore, this would represent, as a whole, incomes for the public coffers of 100 million euros [this figure represents 7.5% of the total tax collected in 2016 resulting from the special electricity tax].

This same methodology is already being applied to specific investment projects, thus obtaining the socio-economic contribution in the region and in the country in terms of increased wealth, measured through GDP, increased production, promotion of employment and income for public administrations.



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PARTICIPATION IN ORGANISATIONS AND ASSOCIATIONS





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Participation in organisations and associations /102-13

Red Eléctrica forms part of various national and international organisations or associations in order to promote the development and knowledge of their activities. It is worth highlighting its presence in the institutions of the European Union and international organisations, mainly in ENTSO-E, an entity that groups together the European TSOs.

International organisations

ENTSO-E *[European Network of Transmission System Operators for Electricity]*

Network that groups together the transmission agents and operators of electricity systems (TSOs) in Europe, constituted according to the mandate of regulation EC 714/2009. The members of ENTSO-E share the same objective: to establish the internal energy market and ensure the optimisation of its operation, as well as to support the ambitious European energy and climate agenda. One of the most prominent issues on the current agenda is the growing integration of renewables in the European energy system, which entails greater flexibility and a more customer-focused approach.

CIGRE *[International Council on Large Electric Systems]*

Organisation which groups together electricity companies, manufacturers of capital equipment and goods, engineering companies, universities and research centres from around the world with the aim of exchanging technical knowledge. Red Eléctrica holds the position of President and Secretary of the Spanish Committee and is also member of various committees.

RGI *[Renewable Grid Initiative]*

Initiative between European TSOs and NGOs that promotes a network of efficient, sustainable, clean and socially acceptable electricity infrastructure capable of integrating generation from decentralised renewable resources and on a large-scale.

IESOE *[Interconnexion de l'électricité du Sud-ouest de l'Europe]*

Regional organisation that brings together the TSOs of south-western Europe (Spain, Portugal and France) and those of Morocco, Algeria and Tunisia, the latter organised under the so-called Maghrebien de l'Electricité Committee, mainly oriented to aspects of system operation.

GO 15 *[Reliable and Sustainable Power Grids]*

Organisation which groups together the 18 largest Power Grid Operators in the world primarily geared towards sharing knowledge on a mutual basis.



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International organisations

Med-TSO *(Mediterranean Transmission System Operators)*

Association of the TSOs of the Mediterranean basin whose objective is to coordinate development plans as well as the operation of electricity grids in the countries of this region.

EASE *(European Association for the Storage of Energy)*

European association that promotes energy storage as an essential tool to improve flexibility and provide services for the energy system with full respect to the EU's climate and energy policies.

CORESO *(CooRdination of Electricity System Operators)*

Organisation whose main objective is to promote coordination between European operators to guarantee security of supply in electricity systems. This body has the functions of coordinating the programming of the operation in the systems of Western Europe, the analysis of the coverage of the region in the short and medium term; as well as the coordination of the calculation of the exchange capacity and the non-availabilities that can condition said capacity, for which it must build common network models based on the models supplied by each of the TSO members.

European Foundation for Quality Management

Non-profit foundation that defines a model of Quality and Excellence as a way for self-evaluation and determination of the processes of continuous improvement in private and public business environments.

ICGN *(International Corporate Governance Network)*

Investor-led organisation whose mission is to promote effective standards of corporate governance and investor management to advance in efficient markets and sustainable economies around the world, guided by the Global Governance Principles and the Global Principles of Global Accountability of ICGN.





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National organisations

ASCOM (Spanish Compliance Association)

First association constituted with the objective of giving professional status to the function of Compliance. In addition, it acts as a think tank to exchange ideas and best practices among the professionals and entities belonging to it.

Spanish Association for Quality

Association focused on raising awareness, training, qualification and certification of professionals of Spanish organisations, thereby promoting the culture of quality, sustainable management, brand value in services, knowledge management and other processes of social interest.

Spanish Association for Standardisation and Certification

Private entity whose activity contributes to improve the quality and competitiveness of companies, their products and services, through the development of technical standards and certifications.

Círculo Cívico de Opinión

Non-profit association conceived as an open, plural and independent forum of civil society. Its objective is to identify, analyse and discuss the main problems that Spanish society poses, in order that the conclusions and suggestions of its debates be transferred to the public arena.

Club Excelencia en Gestión e Innovación

Non-profit business association to enhance the global competitiveness of organisations and professionals, through the values of excellence, providing its partners with an infrastructure to share knowledge, develop competencies and give visibility to their levels of excellence.

Club de Excelencia en Sostenibilidad

Non-profit business association that seeks to promote sustainability by sharing and disseminating good practices.

Spanish issuers

Association representing more than 70% of the Spanish stock market and 75% of the IBEX 35 index for the promotion of measures that reinforce legal certainty in the issue of listed securities, participation in the development of a better national and European legal framework and the contribution to the development of high standards of corporate governance.

Forética

Association of companies and professionals of corporate social responsibility / sustainability whose mission is to promote the integration of social, environmental and good governance aspects of the strategy and management of companies and organisations.

Transparency International España Integrity Forum

Reflection platform facilitated by Transparency International España for the improvement of compliance and ethical management in Spanish companies, which is structured through different working groups and periodic thematic sessions on business ethics.

Biodiversity Foundation

Foundation promoted by the Ministry of Agriculture, Fisheries, Food and Environment that is formed by companies committed to sustainable development. Its objective is to position itself as a leader in responsible and innovative business management, committed to the integration of biodiversity conservation into its policies and strategies.

COTEC Foundation

Private non-profit organisation whose mission is to promote innovation as a driver of economic and social development. Its activity is mainly focused on serving as an observatory of R&D+i in Spain, and providing analysis and advice on innovation, technology and economics.

Chile-España Foundation

Entity whose main objective is to increase the cultural, social, economic and artistic exchange between Chile and Spain. Red Eléctrica is part of the Board of Trustees.



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National organisations

Energy Without Borders Foundation

Foundation, whose mission is to extend and facilitate access to energy and drinkable water services, in a continuous fashion, to those who still do not have them or who receive them in non-suitable conditions.

FEDEA Foundation

Foundation that aims to positively influence society, researching current economic and social issues and later disclosing that research. Bridging the gap between academia, society and public administrations to join efforts with a view to contributing to the progress of Spanish society.

Lealtad Foundation

A pioneering non-profit organisation in Spain whose mission is to promote Spanish society's confidence in NGOs.

Perú-España Foundation

Foundation whose main job is to drive and develop activities that promote the image and presence of Peru in Spain, in the economic, business, cultural and artistic, social, scientific and educational fields; as well as to strengthen the links between institutions and people of both countries. Red Eléctrica is part of the Board of Trustees.

Seres Foundation

Foundation whose mission is to promote the commitment of companies to the development of society. Red Eléctrica is part of the Board of Trustees.

Victims of Terrorism Foundation

Entity whose objective is to promote democratic values, the defence of human rights and the freedom of citizens.

Voluntare Foundation

A global corporate volunteering network that connects businesses with organisations in the third sector.

FUNSEAM [Foundation for Energy and Environmental Sustainability]

Non-profit institution whose fundamental mission is to develop activities in the area of energy and environmental sustainability.

London Benchmarking Group [LBG]

Organisation made up of companies committed to promoting social action in business, using an internationally accepted methodology for the comparative assessment and measurement of commitment to society.

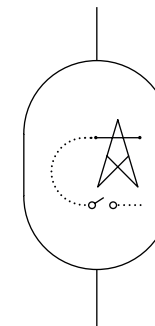
Real Instituto Elcano

Entity whose main task is to conduct international and strategic studies looking at the world from a Spanish, European and global perspective. Red Eléctrica is part of the Board of Trustees.

Spanish Network of the Global Compact

Entity for the promotion of the implementation of the 10 Principles of the Global Compact. Red Eléctrica is a founding member of the Spanish Network of the Global Compact.

Red Eléctrica PARTICIPATES IN



ENTSO-E
European Network of Transmission System Operators for Electricity

Network that groups together the transmission agents and operators of electricity systems (TSOs) in Europe

increased integration of renewables into the European electricity system



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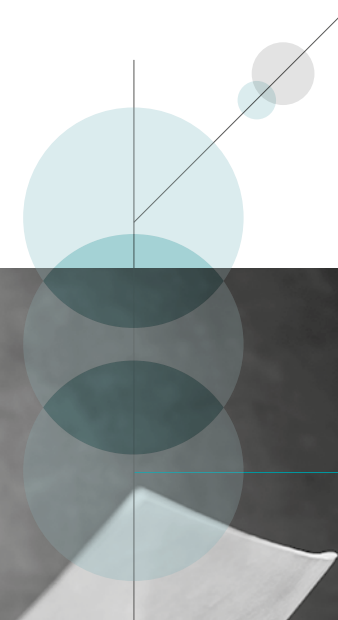


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TAX TRANSPARENCY



Tax transparency

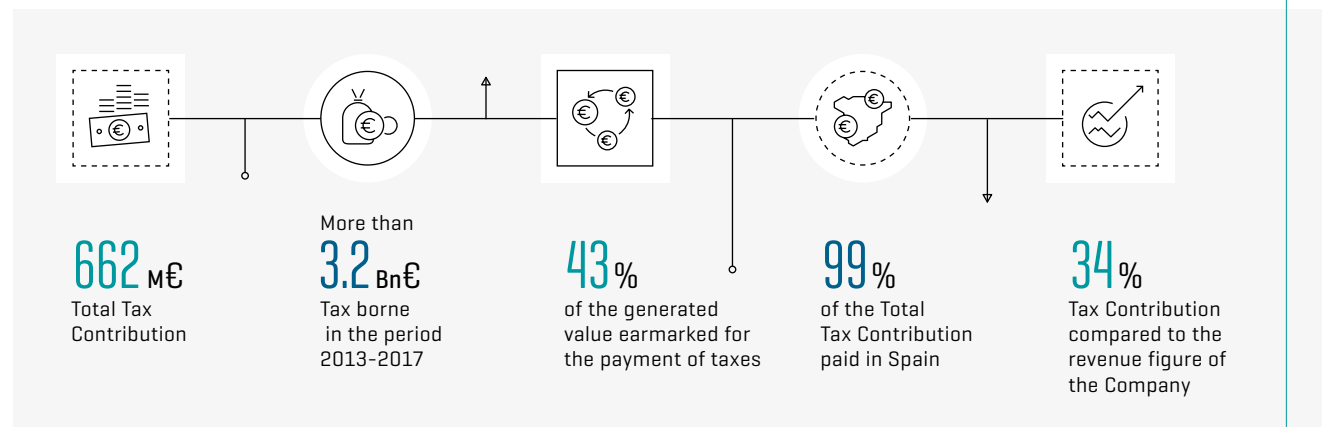
The **Tax Strategy** of the Red Eléctrica Group, approved by the Board of Directors, is based on three core values: transparency, good governance and accountability.

TAX STRATEGY VISION

Manage tax matters in a proactive, transparent and responsible manner with all stakeholders, in order to comply with tax legislation and minimise reputational risk, making it compatible with the protection of shareholder value.

Since 2014, Red Eléctrica voluntarily publishes its Total Tax Contribution, highlighting the relevant economic and social function derived from the Group's tax contribution.

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TOTAL TAX CONTRIBUTION

In order to calculate its Total Tax Contribution, Red Eléctrica has followed the Total Tax Contribution (TTC) methodology of PwC, whose characteristics are:

- Measures the **impact** of tax payments on companies.
- Considers the **total amount of all taxes borne** (which represent an effective cost for the company) and **collected** (which are paid by other taxpayers for the economic activity generated), at any level of the Public Administration.
- Includes **all tax payments** made to Public Administrations.
- It adapts to any tax regime in the world and its use is easy even for people who do not have tax knowledge.

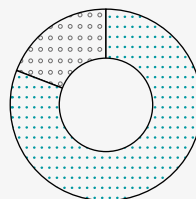
662 million euros in Total Tax Contribution:

242 million euros in taxes borne and 420 million euros in taxes collected.

TAXES BORNE

Tax on profits, mainly Corporate Income Tax ⁽¹⁾ represents 81% of total taxes borne that have been paid to the various tax authorities, mostly to the Spanish tax authority.

Corporate Income Tax %



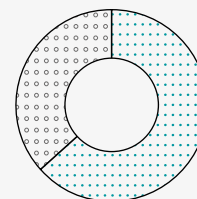
81
%

of taxes
borne

TOTAL TAX CONTRIBUTION 2017

Red Eléctrica's Total Tax Contribution during 2017 amounted to 662 million euros, 242 million euros corresponding to taxes borne and 420 million euros to taxes collected.

Total Tax Contribution €



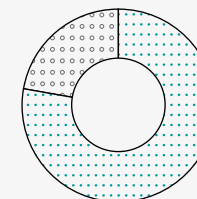
662
M€

Collected (420 M€) 37%
Borne (242 M€) 63%

TAXES COLLECTED

Of the total taxes collected during 2017, the taxes on products and services are noteworthy, fundamentally the Value-Added Tax which accounts for 78% of the total.

Value Added Tax %



78
%

of taxes
collected

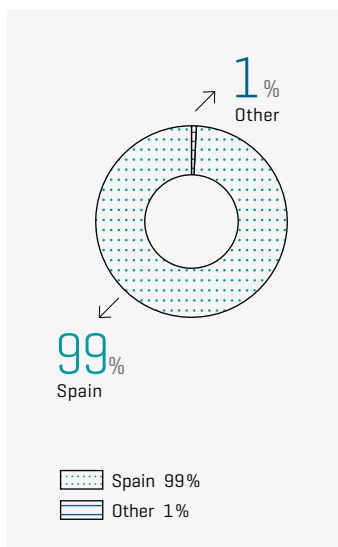
⁽¹⁾ The Consolidated Annual Accounts set out and explain the tax situation: effective tax rate, accounting deductions, etc. The effective tax rate of Corporate Income Tax in 2017 was 24.76%.

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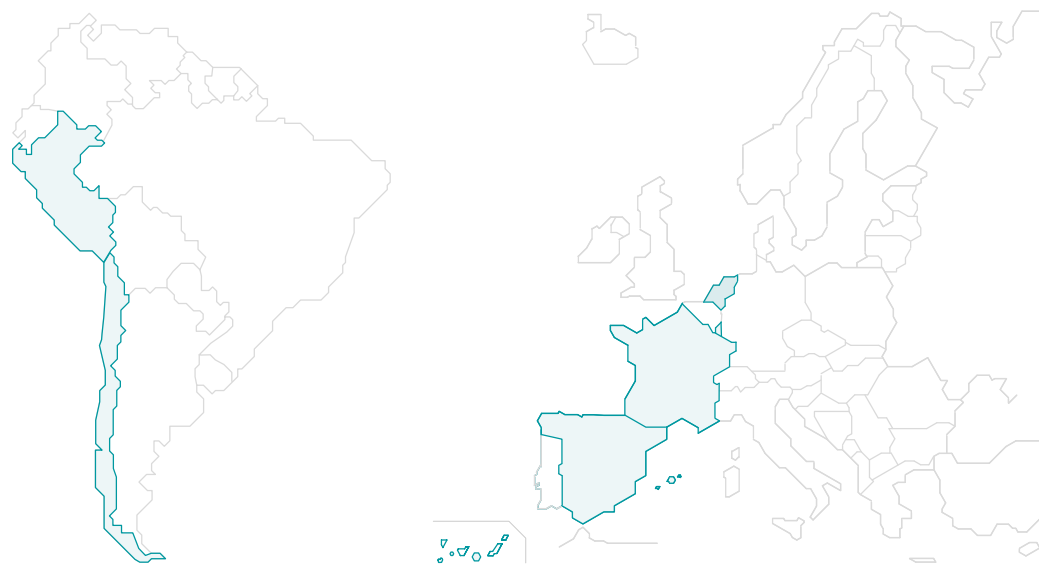
The Total Tax Contribution of the Red Eléctrica Group to the public administrations in all the countries in which it operates grew to 662 million euros in 2017, with the greatest contribution being made in Spain [99%].

Geographic distribution of Total Tax Contribution €



The revenue of the Red Eléctrica Group is mainly generated in Spain [98%].

Geographic distribution



Total Tax Contribution 2017

	Spain (*)	Peru	Chile	Total
Taxes borne	238	2	2	242
Taxes collected	414	5	1	420
Total tax contribution	652	7	3	662

(*) Includes EU Countries.



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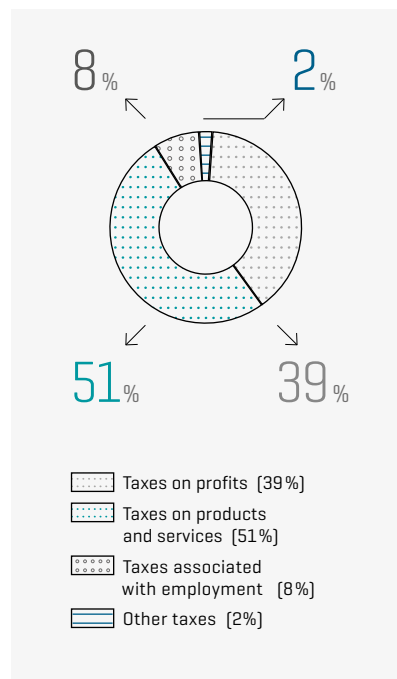


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Total Tax Contribution by tax category

The Total Tax Contribution of the Red Eléctrica Group (662 M€) is distributed according to the following tax categories: taxes on profits (39%), taxes on products and services (51%), taxes associated with employment (8%) and other taxes (2%).

Total Tax Contribution by tax category %



Of every 100 euros in value generated by the Red Eléctrica Group in 2017, 43 euros went to tax payments.

WEIGHT OF TAXES ON VALUE DISTRIBUTED

Applying the Total Tax Contribution (TTC) methodology, the value distributed by the Red Eléctrica Group in 2017 would total 1,550 million euros, a figure which is composed of the sum of the following elements:

- After-tax profit or shareholder value (670 million euros).
- Taxes (662 million euros): borne (242 million euros) and collected (420 million euros).
- Net interest (143 million euros).
- Wages and salaries after taxes collected (75 million euros).

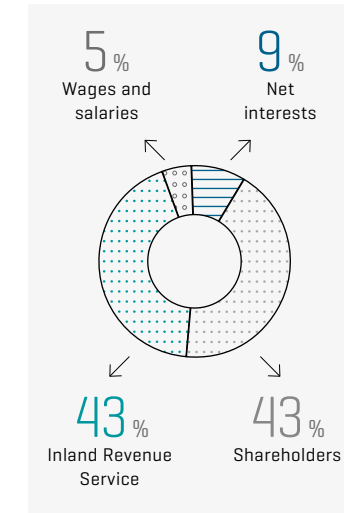
TAX CONTRIBUTION COMPARED TO REVENUES

The comparison of Total Tax Contribution to total revenues is an indicator that shows the amount of the contribution made by Red Eléctrica in relation to the size of its business.

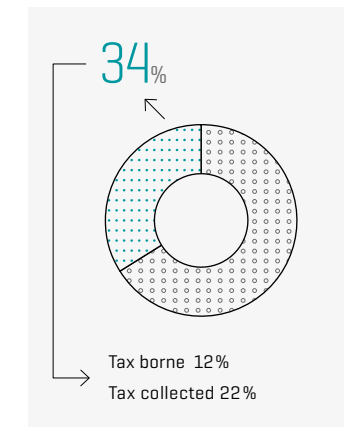
The ratio of Total Tax Contribution compared to total revenues is 34%, of which:

- 12% are taxes borne.
- 22% are taxes collected.

Value distributed %



Tax Contribution compared to revenue %





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TAX RESPONSIBILITY

Regarding Red Eléctrica's tax responsibility, noteworthy are the following aspects:

- The Red Eléctrica Group is committed to complying with tax legislation and tax obligations in the countries in which it operates.
- The Red Eléctrica Group is committed to complying with the provisions of the 'OECD Guidelines for multinational companies' in tax matters. In terms of transfer pricing, the Red Eléctrica Group acts in accordance with the arm's length principle.
- The tax behaviour of the Red Eléctrica Group is coherent with the Base Erosion and Profit Shifting (BEPS) principles and actions, as it has not carried out operations, acts or events that could lead to double deduction of expenses, double tax benefit utilisation, double-loss utilisation, double non-taxation, nor has used hybrid instruments or entities.

- Red Eléctrica has a Comprehensive Risk Management System that includes any relevant tax risks for the Group. The aspects regarding the **Control and Management Policy of Tax Risks** of the Red Eléctrica Group, approved by the Board of Directors, which are integrated into the Comprehensive Risk Management Policy, establish the specific guidelines for action for the management of said risks.
- The Group also has a specific Internal Control Over Financial Reporting (ICFR), which includes tax data and processes, as well as the controls associated with them, based on the COSO (Committee of Sponsoring Organisations of the Treadway Commission) methodology. These processes and systems are systematically subject to internal and external audits.



- The Red Eléctrica Group has various mechanisms in place to prevent illicit operations, money laundering and concealment of assets. These include the Code of Ethics, the Supplier Code of Conduct, the Crime Risk Prevention Programme and the Guide for the Prevention of Corruption: zero tolerance, which are available to Red Eléctrica Group employees, its suppliers and the various stakeholder groups through the corporate website. In the

same way, the Red Eléctrica Group carries out awareness and training activities in an ongoing manner to make its members more familiar with the aforementioned documents.



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Within the framework of the Code of Good Tax Practices, the Red Eléctrica Group has voluntarily submitted the **Annual Tax Transparency Report 2016** to the Spanish Tax Authority.



• The Red Eléctrica Group has adhered to the Code of Good Tax Practices (CGTP) adopted by the State Tax Administration Authority within the framework of the Large Business Forum. Said undertaking took place in 2015 and is aligned with the principles and guidelines for action on tax matters established in the Tax Strategy of the Group.

• On 28 October 2016, the Large Business Forum approved the proposal for the reinforcement of good practices in corporate tax transparency, articulating a proposal for a report called '**Annual Report on Tax Transparency** for companies adhering to the Code of Good Tax Practices'. In accordance with the foregoing, the Red Eléctrica Group has voluntarily submitted the aforementioned Tax Transparency Report for 2016 to the Spanish Tax Authority.

• Additionally, in 2017 the new tax declaration called Country by Country Reporting for the year 2016 was filed with the Tax Administration in Spain.

• Red Eléctrica's Code of Ethics and tax strategy sets out the commitment not to create companies to evade taxes in territories considered tax havens. The Red Eléctrica Group has no presence, nor does it carry out any activity in those territories considered as tax havens in accordance with current regulations:

- Spanish regulations contained in Royal Decree 1080/91 of 5 July, amended subsequently by Royal Decree 116/2003, of 31 January.
- European list of non-cooperative jurisdictions in tax matters approved by ECOFIN at its meeting on 5 December 2017.
- List of non-cooperative tax havens prepared by the OECD.



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GRI content index ^[1] / 102-55

GRI STANDARD	DESCRIPTION	PAGE NUMBER DIRECT ANSWER	OMISSIONS
GRI 101: FOUNDATION 2016			
GRI 102: GENERAL DISCLOSURES 2016			
Organizational profile			
102-1	Name of the organization.	12	
102-2	Activities, brands, products, and services.	12, 13	
102-3	Location of headquarters.	Red Eléctrica Paseo Conde de los Gaitanes, 177 Alcobendas (Madrid) - España.	
102-4	Location of operations.	13	
102-5	Ownerships and legal form.	12	
102-6	Markets served.	13	
102-7	Scale of the organization.	9	
102-8*	Information on employees and other workers.	9, 177	
102-9	Supply chain.	212	
102-10	Significant changes to the organization and its supply chain.	3, 12	
102-11	Precautionary Principle or approach.	58, 184	
102-12	External initiatives.	42	
102-13	Membership of associations.	243-246	
EU1*	Installed capacity, broken down by primary energy source and by regulatory regime.	-	Not applicable. All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.
EU2*	Net energy output, broken down by primary energy source and by regulatory regime.	-	Not applicable. All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.
EU3*	Number of residential, industrial, institutional and commercial customer accounts.	221-222	

[1] This index includes the aspects and indicators of the electric utilities sector supplement, according to the GRI G4 Sector disclosures (Electric Utilities) publication. The symbol [*] indicates those indicators where specific information regarding the sector is included.




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GRI STANDARD	DESCRIPTION	PAGE NUMBER DIRECT ANSWER	OMISSIONS
EU4*	Length of above and underground transmission and distribution lines by regulatory regime.	88-90	
EU5*	Allocation CO ₂ emissions allowances or equivalent, broken down by carbon trading framework.	-	Not applicable. The rights regarding CO ₂ Equivalent Emission Allowances do not apply to power transmission activities.
Strategy			
102-14	Statement from senior decision-maker.	4-8	
102-15	Key impacts, risks, and opportunities.	53, 61, 64	
Ethics and Integrity			
102-16	Values, principles, standards, and norms of behaviour.	134-137	
102-17	Mechanisms for advice and concerns about ethics.	134-137	
Governance			
102-18	Governance structure.	121-127	
102-19	Delegating authority.	126-127	
102-20	Executive-level responsibility for economic, environmental and social topics.	126-127	
102-21	Consulting stakeholders on economic, environmental, and social topics.	127-128	
102-22	Composition of the highest governance body and its committees.	121, 123	
102-23	Chair of the highest governance body.	124	
102-24	Nominating and selecting the highest governance body.	129	
102-25	Conflicts of interest.	130	
102-26	Role of the highest governance body in setting purpose, values, and strategy.	123	
102-27	Collective knowledge of highest governance body.	130-131	
102-28	Evaluating the highest governance body's performance.	130-131	
102-29	Identifying and managing economic, environmental, and social impacts.	64-68	

[1] This index includes the aspects and indicators of the electric utilities sector supplement, according to the GRI G4 Sector disclosures (Electric Utilities) publication. The symbol [*] indicates those indicators where specific information regarding the sector is included.





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GRI content index ^[1]

GRI STANDARD	DESCRIPTION	PAGE NUMBER DIRECT ANSWER	OMISSIONS
102-30	Effectiveness of risk management processes.	59-60	
102-31	Review of economic, environmental, and social topics.	59-60	
102-32	Highest governance body's role in sustainability reporting.	The Corporate Responsibility Report is submitted for approval to the Appointments and Remuneration Committee, which is the competent authority regarding corporate responsibility matters.	
102-33	Communicating critical concerns.	127-128	
102-34	Nature and total number of critical concerns.	127-128	
102-35	Remuneration policies.	131-132	
102-36	Process for determining remuneration.	131-132	
102-37	Stakeholders' involvement in remuneration.	131-132	
102-38	Annual compensation ratio.	The ratio between the total remuneration of the highest-paid individual of the organisation ^[2] and the average total remuneration of the entire workforce ^[3] (excluding the highest-paid individual) was 14 times.	
102-39	Percentage increase in annual compensation ratio.	^[4]	
Stakeholder engagement			
102-40	List of stakeholder groups.	33-35, 38-40	
102-41*	Collective bargaining agreements.	167, 177	
102-42	Identifying and selecting stakeholders.	33-35	
102-43	Approach to stakeholder engagement.	36, 37, 44-49	
102-44	Key topics and concerns raised.	3, 36, 37, 44-49	

[1] This index includes the aspects and indicators of the electric utilities sector supplement, according to the GRI G4 Sector disclosures [Electric Utilities] publication. The symbol [*] indicates those indicators where specific information regarding the sector is included. [2] Total remuneration accrued of the highest-paid individual (CEO): 986,000 euros. Includes both the fixed and variable remuneration corresponding to his role as top executive of the Company, as well as the fixed remuneration corresponding to his role as a member of the Board of Directors and other remunerations. Information available in note 23 of the Annual Consolidated Accounts of 'Red Eléctrica Corporación S.A. and Dependent Companies' and in the Annual Corporate Governance Report. [3] The average total remuneration of the workforce excluding the highest-paid individual: 68,408 euros [personnel cost excluding social security costs]. Information available in note 21c of the Annual Consolidated Accounts of 'Red Eléctrica Corporación S.A. and Dependent Companies'. [4] The calculation of this ratio of percentage increase is not deemed appropriate as the compensation for the year 2017 is not comparable to 2016. This is due to the fact that in 2017 the CEO's compensation experienced an increase as a result of his full assumption, during the entire year, of the executive duties and functions stemming from the completion of the process of separation of the positions of Chairman of the Board of Directors and of Chief Executive Officer of Red Eléctrica, which took place at the Ordinary General Shareholders' Meeting held in April 2016.


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102-46	Defining report content and topic Boundaries.	3, 44-49	
102-47	List of material topics.	44-49	
102-48	Restatements of information.	3	
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102-50	Reporting period.	2	
102-51	Date of most recent report.	2	
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ECONOMIC PERFORMANCE

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	46, 147-150	
103-2	The management approach and its components.	147-150	
103-3	The evaluation of the management approach.	147-150	

GRI 201: Economic performance 2016

201-1	Direct economic value generated and distributed.	147	
201-2	Financial implications and other risks and opportunities for the organisation due to climate change.	66	
201-3	Obligations of the organisation for employee benefit programmes and other pension plans.	2017 Consolidated Annual Accounts Report Note 4-I	
201-4	Financial assistance received from governments.	147	

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PROCUREMENT PRACTICES

GRI 103: Management Approach 2016

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103-2	The management approach and its components.	175, 185, 210-219	
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GRI 204: Procurement practices 2016

204-1	Proportion of spending on local suppliers.	212	
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ANTI-CORRUPTION

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	46, 142-143	
103-2	The management approach and its components.	142-143	
103-3	The evaluation of the management approach.	142-143	

GRI 205: Anti-corruption 2016

205-1	Operations assessed for risks related to corruption.	142-143	
205-2	Communication and training about anti-corruption policies and procedures.	142-143	
205-3	Confirmed incidents of corruption and actions taken.	142-143	

AVAILABILITY AND RELIABILITY

GRI 103: Management Approach 2016

103-1*	Explanation of the material topic and its boundary.	46, 85-87	
103-2*	The management approach and its components.	85-87	
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GRI STANDARD	DESCRIPTION	PAGE NUMBER DIRECT ANSWER	OMISSIONS
GRI G4 Electric Utilities: Availability and reliability			
EU10*	Planned capacity against projected electricity demand over the long term, broken down by energy source and regulatory regime.	85-87	
DEMAND-SIDE MANAGEMENT			
GRI 103: Management Approach 2016			
103-1*	Explanation of the material topic and its boundary.	46, 96-98	
103-2*	The management approach and its components.	96-98	
103-3*	The evaluation of the management approach.	96-98	
TECHNOLOGY AND INNOVATION			
GRI 103: Management Approach 2016			
103-1*	Explanation of the material topic and its boundary.	46, 73-77	
103-2*	The management approach and its components.	73-77	
103-3*	The evaluation of the management approach.	73-77	
PLANT DECOMMISSIONING			
GRI 103: Management Approach 2016			
103-1*	Explanation of the material topic and its boundary.	-	Not applicable. All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.
103-2*	The management approach and its components.	-	Not applicable. All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.
103-3*	The evaluation of the management approach.	-	Not applicable. All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.

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SYSTEM EFFICIENCY

GRI 103: Management Approach 2016

103-1*	Explanation of the material topic and its boundary.	46, 96, 109	
103-2*	The management approach and its components.	96, 109	
103-3*	The evaluation of the management approach.	96, 109	

GRI G4 Electric Utilities. System Efficiency

EU11*	Average generation efficiency of thermal plants by energy source and by regulatory regime.	-	Not applicable. All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.
EU12*	Transmission and distribution losses as a percentage of total energy.	109-110	

ENERGY

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	46, 81-83, 100-110	
103-2	The management approach and its components.	81-83, 100-110	
103-3	The evaluation of the management approach.	81-83, 100-110	

GRI 302: Energy 2016

302-1	Energy consumption within the organization.	111	
302-2	Energy consumption outside of the organization.	112	
302-3	Energy intensity.	112	
302-4	Reduction of energy consumption.	112	
302-5	Reductions in energy requirements of products and services.	-	Not applicable. Red Eléctrica, as electricity system operator, carries out various demand-side management initiatives aimed at improving energy efficiency of the electricity system as a whole, but it does not produce or market products nor services, whereby it is not possible to quantify the energy reductions that may result from them.

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WATER MANAGEMENT

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.		Although water has not been a material issue in the materiality study conducted by the Company, Red Eléctrica has decided to include it and verify it as it is an aspect demanded by some sustainability indexes.
103-2	The management approach and its components.		Although water has not been a material issue in the materiality study conducted by the Company, Red Eléctrica has decided to include it and verify it as it is an aspect demanded by some sustainability indexes.
103-3	The evaluation of the management approach.		Although water has not been a material issue in the materiality study conducted by the Company, Red Eléctrica has decided to include it and verify it as it is an aspect demanded by some sustainability indexes.

GRI 303: Water 2016

303-1*	Water withdrawal by source.	208	The sector aspect is not applicable. Red Eléctrica does not have electricity generation.
303-2	Water sources significantly affected by withdrawal of water.	-	Not applicable. The water consumed is obtained from authorised water withdrawal points (municipal mains and wells) or from cisterns. Therefore, no direct effect exists on ecosystems.
303-3	Water recycled and reused.	208	

BIODIVERSITY

GRI 103: Management Approach 2016

103-1*	Explanation of the material topic and its boundary.	46, 194-201	
103-2*	The management approach and its components.	194-201	
103-3*	The evaluation of the management approach.	194-201	

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BIODIVERSITY / continuation

GRI 304: Biodiversity 2016

304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	205	
304-2*	Significant impacts of activities, products, and services on biodiversity.	197-200, 205	
304-3	Habitats protected or restored.	201, 230-231	
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations.	201, 205, 206	

GRI G4 Electric Utilities. Biodiversity

EU13*	Biodiversity of offset habitats compared to the biodiversity of the affected areas.	-	The comparison of the offset habitat with the affected area is not applicable, as the effects on the original habitat are minimal. Thanks to the preventive and corrective measures implemented, Red Eléctrica facilities do not entail a loss of biodiversity that is significant enough so as to require the establishment of offset areas. The impacts generated are one-off situations, having established in some cases very specific offsetting measures such as planting woodland or the restoration of habitats.
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EMISSIONS AND CLIMATE CHANGE

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	46, 81-83, 100-110	
103-2	The management approach and its components.	83, 100-110	
103-3	The evaluation of the management approach.	83, 100-110	

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EMISSIONS AND CLIMATE CHANGE / continuation

GRI 305: Emissions 2016

305-1*	Direct GHG emissions (Scope 1).	113	
305-2*	Energy indirect GHG emissions (Scope 2).	113	
305-3	Other indirect GHG emissions (Scope 3).	114	
305-4	GHG emissions intensity.	114	
305-5	Reduction of GHG emissions.	114	
305-6	Emissions of ozone-depleting substances (ODS).	-	Not applicable. These can be considered to be irrelevant, with the exception of those associated with the use of air conditioning equipment containing R22. Losses are minimal owing to the fact that they undergo adequate maintenance. The replacement of equipment with R22 is in process. There's only 107.8 kg of gas R22 left in operating equipment, and 203.1 kg in out-of-service equipment, which will be progressively replaced or eliminated.
305-7*	Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions.	-	Not applicable. The activities of the Company do not give rise to these types of emissions as the activities do not involve the burning of fossil fuels - REE does not generate electricity. REE does use fossil fuel in vehicles and diesel generator sets, although the associated emissions are not considered relevant under this aspect.

LEAKS, EFFLUENTS AND WASTE MANAGEMENT

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	202-204	
103-2	The management approach and its components.	202-204	
103-3	The evaluation of the management approach.	202-204	

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LEAKS, EFFLUENTS AND WASTE MANAGEMENT / continuation

GRI 306: Effluents and waste 2016

306-1*	Water discharge by quality and destination.	-	Not applicable. The activities of the Company do not give rise discharges. Rainwater discharges only occur in substations.
306-2*	Waste by type and disposal method.	207	
306-3	Significant spills.	207	
306-4	Transport of hazardous waste.	207	
306-5	Water bodies affected by water discharges and/or runoff.	-	Not applicable. Rainwater discharges from substations (which is the only water discharge associated with the activities of REE that takes place) do not affect water resources nor the associated habitats.

ENVIRONMENTAL COMPLIANCE

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	184-193
103-2	The management approach and its components.	184-193
103-3	The evaluation of the management approach.	184-193

GRI 307: Environmental Compliance 2016

307-1	Non-compliance with environmental laws and regulations.	208
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SUPPLY CHAIN ASSESSMENT

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	185, 210-219
103-2	The management approach and its components.	185, 210-219
103-3	The evaluation of the management approach.	185, 210-219

GRI 308: Supplier environmental assessment 2016

308-1	New suppliers that were screened using environmental criteria.	185, 210-219
308-2	Negative environmental impacts in the supply chain and actions taken	185, 213

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EMPLOYMENT

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	49, 152-155, 167-169	
103-2	The management approach and its components.	152-155, 167-169	
103-3	The evaluation of the management approach.	152-155, 167-169	

GRI 401: Employment 2016

401-1*	New employees hires and employee turnover.	178	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees.	176	
401-3	Parental leave.	179	

GRI G4 Electric Utilities. Employment

EU15*	Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region.	182	
EU17*	Days worked by contractor and subcontractor employees involved in construction, operation and maintenance activities.	182	
EU18*	Percentage of contractor and subcontractor employees that have undergone relevant health and safety training.	175	

LABOR/MANAGEMENT RELATIONS

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	167-169	
103-2	The management approach and its components.	167-169	
103-3	The evaluation of the management approach.	167-169	

GRI 402: Labor/Management Relations

402-1	Minimum notice periods regarding operational changes.	167-169	
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OCCUPATIONAL HEALTH AND SAFETY

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	49, 170-175	
103-2	The management approach and its components.	170-175	
103-3	The evaluation of the management approach.	170-175	

GRI 403: Occupational health and safety 2016

403-1	Workers representation in health and safety committees.	174-175	
403-2*	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.	173, 179	
403-3	Workers with high incidence of high risk of diseases related to their occupation.	171	
403-4	Health and safety topics covered in formal agreements with trade unions.	174-175	

TRAINING AND EDUCATION

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	47, 160-165	
103-2	The management approach and its components.	160-165	
103-3	The evaluation of the management approach.	160-165	

GRI 404: Training and education 2016

404-1	Average hours of training per year per employee.	174, 180	
404-2	Programs for upgrading employee skills and transition assistance programs.	160, 165	
404-3	Percentage of employees receiving regular performance and career development reviews.	164	

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DIVERSITY AND EQUAL OPPORTUNITY

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	47, 156-159	
103-2	The management approach and its components.	156-159	
103-3	The evaluation of the management approach.	156-159	

GRI 405: Diversity and Equal Opportunity 2016

405-1	Diversity of governance bodies and employees.	180, 181	
405-2	Ratio of basic salary and remuneration of women to men.	182	

NON-DISCRIMINATION

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	46, 134-137	
103-2	The management approach and its components.	134-137	
103-3	The evaluation of the management approach.	134-137	

GRI 406: Non-discrimination 2016

406-1	Incidents of discrimination and corrective actions taken.	137	
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FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	143	
103-2	The management approach and its components.	143	
103-3	The evaluation of the management approach.	143	

GRI 407: Freedom of Association and Collective Bargaining 2016

407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk.	143	
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CHILD LABOUR

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	143	
103-2	The management approach and its components.	143	
103-3	The evaluation of the management approach.	143	

GRI 408: Child Labour 2016

408-1	Operations and suppliers at significant risk for incidents of child labour.	143	
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FORCED OR COMPULSORY LABOUR

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	143	
103-2	The management approach and its components.	143	
103-3	The evaluation of the management approach.	143	

GRI 409: Forced or Compulsory Labour 2016

409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour	143	
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RIGHTS OF INDIGENOUS PEOPLES

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	144	
103-2	The management approach and its components.	144	
103-3	The evaluation of the management approach.	144	

GRI 411: Rights of Indigenous Peoples 2016

411-1	Incidents of violations involving rights of indigenous peoples	144	
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HUMAN RIGHTS ASSESSMENT

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	46, 142-145	
103-2	The management approach and its components.	142-145	
103-3	The evaluation of the management approach.	142-145	

GRI 412: Human Rights Assessment 2016

412-1	Operations that have been subject to human rights reviews or impact assessments.	144	
412-2	Employee training on human rights policies or procedures.	145	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.	144	

LOCAL COMMUNITIES

GRI 103: Management Approach 2016

103-1*	Explanation of the material topic and its boundary.	46, 229-241	
103-2*	The management approach and its components.	229-241	
103-3*	The evaluation of the management approach.	229-241	

GRI 413: Local communities 2016

413-1	Operations with local community engagement, impact assessments, and development programs.	236-237	
413-2	Operations with significant actual and potential negative impacts on local communities.	189	

GRI G4 Electric Utilities. Local communities

EU22*	Number of people physically or economically displaced and compensation.	-	Not applicable. Red Eléctrica's facilities do not have any type of displacement associated.
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SUPPLIER SOCIAL ASSESSMENT

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	210-219	
103-2	The management approach and its components.	210-219	
103-3	The evaluation of the management approach.	210-219	

GRI 414: Supplier social assessment 2016

414-1	New suppliers that were screened using social criteria.	216-218	
414-2	Negative social impacts in the supply chain and actions taken.	213, 219	

CUSTOMER HEALTH AND SAFETY

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	192-193	
103-2	The management approach and its components.	192-193	
103-3	The evaluation of the management approach.	192-193	

GRI 416: Customer Health and Safety 2016

416-1	Assessment of the health and safety impacts of product and service categories.	192-193	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services.	192	No litigation (whether civil, administrative or criminal) has been identified in relation to incidents of non-compliance with legislation or regulations concerning the health and safety impacts of products and services within the reporting period, arising from disciplinary proceedings that have resulted in significant fines or penalties in accordance with the parameters set for indicator 419-1.

[1] This index includes the aspects and indicators of the electric utilities sector supplement, according to the GRI G4 Sector disclosures (Electric Utilities) publication. The symbol [*] indicates those indicators where specific information regarding the sector is included.





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GRI content index ^[1]

GRI STANDARD	DESCRIPTION	PAGE NUMBER DIRECT ANSWER	OMISSIONS
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CUSTOMER HEALTH AND SAFETY / continuation

GRI G4 Electric Utilities. Customer Health and Safety

EU25*	Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements and pending legal cases of diseases.	For 2017 we are not aware that any third party has formally filed any grievance or claim (whether civil, administrative or criminal) regarding injuries, fatalities or diseases among citizens involving company assets in accordance with the parameters set for indicator 419-1.	
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ENERGY ACCESS

GRI 103: Management Approach 2016

103-1*	Explanation of the material topic and its boundary.	90	
103-2*	The management approach and its components.	90	
103-3*	The evaluation of the management approach.	90	

GRI G4 Electric Utilities. Energy Access

EU26*	Percentage of population unserved in licensed distribution or service.	-	Not applicable. Red Eléctrica, as high voltage transmission agent, does not reach the final consumer.
EU27*	Number or residential disconnections for non-payment, broken down by duration of disconnection and by regulatory regime.	-	Not applicable. Red Eléctrica does not carry out distribution activity, only high voltage transmission. The quality indicators of the transmission activity are shown in the Decarbonisation chapter ↔
EU28*	Power outage frequency.	90	
EU29*	Average power outage duration.	90	
EU30*	Average plant availability factor by energy source and by regulatory regime.	-	Not applicable. All the activities of the Group are related to the transmission of electricity and the operation of the electricity systems, but not to the generation of electricity.

[1] This index includes the aspects and indicators of the electric utilities sector supplement, according to the GRI G4 Sector disclosures (Electric Utilities) publication. The symbol [*] indicates those indicators where specific information regarding the sector is included.





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CUSTOMER PRIVACY

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	221-225	
103-2	The management approach and its components.	221-225	
103-3	The evaluation of the management approach.	221-225	

GRI 418: Customer Privacy 2016

418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data.		There is no record of any substantiated claims or grievances filed in 2017 concerning breaches of customer privacy and losses of customer data.
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SOCIOECONOMIC COMPLIANCE

GRI 103: Management Approach 2016

103-1	Explanation of the material topic and its boundary.	134-145	
103-2	The management approach and its components.	134-145	
103-3	The evaluation of the management approach.	134-145	

GRI 419: Socioeconomic Compliance 2016

419-1	Non-compliance with laws and regulations in the social and economic area.		In order to respond to the GRI indicators, we consider compensation, fines or significant penalties those whose economic value exceeds 500,000 euros or those that due to their nature have a special impact on the Company owing to its connection with the electricity sector. Similarly, it has been taken as a criterion of reference that the sanction be firm, at least as set by administrative procedure. In light of the foregoing, we consider that the Company has not been imposed significant fines or non-monetary sanctions for non-compliance with legislation and regulations in the social or economic area.
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[1] This index includes the aspects and indicators of the electric utilities sector supplement, according to the GRI G4 Sector disclosures [Electric Utilities] publication. The symbol [*] indicates those indicators where specific information regarding the sector is included.





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PROVISION OF INFORMATION

GRI 103: Management Approach 2016

103-1*	Explanation of the material topic and its boundary.	-	Not applicable. Red Eléctrica, as high voltage transmission agent, does not reach the final consumer.
103-2*	The management approach and its components.	-	Not applicable. Red Eléctrica, as high voltage transmission agent, does not reach the final consumer.
103-3*	The evaluation of the management approach.	-	Not applicable. Red Eléctrica, as high voltage transmission agent, does not reach the final consumer.

[1] This index includes the aspects and indicators of the electric utilities sector supplement, according to the GRI G4 Sector disclosures (Electric Utilities) publication. The symbol [*] indicates those indicators where specific information regarding the sector is included.





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EXTERNAL AUDIT REPORT



INDEPENDENT REVIEW REPORT OF THE SUSTAINABILITY INDICATORS OF CORPORATE RESPONSIBILITY OF RED ELÉCTRICA CORPORACIÓN, S.A.

To the Management of Red Eléctrica Corporación, S.A.

Scope

As commissioned by the Management of Red Eléctrica Corporación, S.A. (hereinafter REC), we have carried out the review of the sustainability indicators in the Annex to the Sustainability Report 2017 of REC "Table of GRI Indicators". This information has been prepared in accordance with GRI Sustainability Reporting Standards (GRI Standards) and the "Electric Utilities Sector Supplement", G4 version, as detailed in the section "Sustainability context" of the chapter "About this report".

The scope considered by REC for the preparation of the Report is defined in the section "Coverage" of the chapter "About this report".

The preparation of the attached report, as well as its content, is the responsibility of the Management of REC, which is also responsible for defining, adapting and maintaining the management and internal control systems from which the information is obtained. Our responsibility is to issue an independent report based on the procedures applied in our review.

Criteria

Our review was carried out based on:

- The guidelines for reviewing Corporate Responsibility Reports, issued by the Spanish Official Register of Auditors of Accounts (ICJCE).
- Standard ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), with a limited assurance scope.

Applied procedures

Our review consisted in requesting information from the Sustainability Department and the various business units participating in the preparation of the Report, applying processes and analytical procedures, and sampling review tests as described in the general terms below:

- Interviews with the staff in charge of the preparation of the sustainability information in order to gain a deep understanding of how the objectives and sustainability policies are considered, set into practice and integrated within REC's global strategy.
- Reviewing the processes for the compilation and validation of the sustainability indicators of corporate responsibility.
- Checking the processes held by REC in order to define the material aspects and stakeholder participation.
- Reviewing the adaptation of the structure and content of the sustainability information as indicated in the GRI Sustainability Reporting Standards of the Global Reporting Initiative and the Electric Utilities Sector Supplement, G4 version, in accordance with the comprehensive option.

- Checks on selected samples of the quantitative and qualitative information of the indicators included in "Table of GRI Indicators" in the Annex, as well as their adequate compilation from data supplied by information sources. The review tests have been defined to provide the aforementioned assurance levels.
- Checking that the financial information included in the Report has been audited by independent third parties.

These procedures have been applied on the sustainability indicators in the Annex to the Sustainability Report 2017 of REC "Table of GRI Indicators", with the aforementioned scope.

The scope of our review is considerably lower than a reasonable assurance report. Therefore, the degree of assurance is also less extensive. This report in no case should be considered as an audit report.

Independence and quality control

We have complied with the requirements of independence and the other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA, for its acronym in English).

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and maintains, as a result, a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards and legal and regulatory provisions.

Our work has been performed by a team of sustainability experts with a wide experience in reviewing this type of information.







Conclusions

As a result of our limited review, we conclude that no matter came to our attention that would indicate that the indicators of corporate responsibility in the Annex to the Sustainability Report 2017 of REC "Table of GRI Indicators" has not been prepared, in all its significant aspects, according to the GRI Standards sustainability reporting guideline and the "Electric Utilities Sector Supplement", G4 version, which includes the data reliability, the adequacy of the information presented and the absence of significant deviations and omissions.

This report has been prepared solely for the management of Red Eléctrica Corporación, S.A., in accordance with the terms set out in our engagement letter.

ERNST & YOUNG, S.L.

(Free translation from the Original Report on Independent Review in Spanish dated 19th March 2018. In case of any discrepancy, the Spanish version always prevails.)

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INDEPENDENT ASSURANCE REPORT OF GREENHOUSE GAS EMISSIONS INVENTORY



REPORT ON INDEPENDENT LIMITED ASSURANCE OF GREENHOUSE GAS EMISSIONS INVENTORY 2017 OF RED ELÉCTRICA DE ESPAÑA S.A.U.

To the Management of Red Eléctrica de España, S.A.U.

Scope

We have undertaken a limited assurance engagement on the Green Gas Emissions Inventory (hereinafter referred to as the GHG Inventory) of Red Eléctrica de España, S.A.U. (hereinafter referred to as REE) for the financial year ending 31st December 2017, included in the Appendix of this Report.

This assignment has been made by a multidisciplinary team that includes specialists in sustainability, climate change and assurance.

Management's responsibility

REE's management is responsible for preparation and update of the 2017 GHG Inventory in accordance with their internal procedure, "Methodology for de Calculation of the Greenhouse Gas Emissions (GHG) Inventory of Red Eléctrica España S.A.U." available on the following website link <http://www.ree.es/en/sustainability>. This responsibility includes the design, implementation and maintenance of internal control relevant to ensure that the GHG Inventory is free from material misstatement, whether due to fraud or error.

The quantification of GHG emissions is subject to more inherent uncertainty than financial information, because of incomplete scientific, according to its nature and methods used to determine, calculate or estimate emissions.

Likewise, it is also responsible for defining, implementing, adapting and maintaining the necessary internal management and control systems so that the preparation and presentation of the information is free of material impropriety due to fraud or error.

Our independence and quality control

We have complied with the requirements of independence and the other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA, for its acronym in English).

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and maintains, as a result, a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards and legal and regulatory provisions.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the GHG Inventory based on the procedures we have performed and de evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements 3410 (ISAE 1410), "Assurance Engagement on Greenhouse Gas Statements" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). This standard requires that we plan and perform this engagement to obtain a limited assurance that REE's 2017 GHG Inventory is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3410 involves assessing the suitability in the circumstances of REE's use of applicable criteria as the basis for the preparation of the GHG statement, assessing the risk of material misstatement whether due to fraud or error, responding to the assessed risk as necessary in the circumstances, and evaluating the overall presentation of the GHG statement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. Therefore, the degree of assurance is also less extensive. This report in no case should be considered as an audit report.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- Through inquiries and meetings with personnel of REE's various departments who have been involved in the preparation of the GHG Inventory, obtained an understanding of REE's control environment and information systems relevant to emissions quantification and reporting, but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness.
- Evaluated whether REE's methods for developing estimates are appropriate and had been consistently applied. However, our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate REE's estimates.



- Verification, through random sampling tests, internal control rests and the development of substantive rests of the information (activity data, calculations and information generated) used to determine REE's 2017 GHG Inventory with the internal procedure. We have also verified the correct compilation of information based on the data provided by REE's sources of information.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that REE's GHG Inventory for the financial year ending 31st December 2017 contains any material misstatement or is not prepared, in all material respects, in accordance with the "Methodology for the Calculation of the Greenhouse Gas Emissions (GHG) Inventory of Red Eléctrica de España S.A.U.".

Use and distribution

Our report is only issued to the Management of Red Eléctrica de España S.A.U. in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than REE's Management.

ERNST & YOUNG, S.L.

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GREENHOUSE GAS (GHG) INVENTORY OF RED ELÉCTRICA ESPAÑA S.A.U.

GHG Inventory 2018	tCO ₂ eq
Scope 1	28,764.78
SF ₆	26,223.98
Air conditioning	708.96
Fleet vehicles	1,556.47
Diesel generating sets	275.38
Scope 2	956,967.29
Electricity consumption	946.50
Transmission grid losses	956,020.79
Scope 3	415,748.45
Purchase of goods and services	295,786.84
Capital goods	111,618.72
Energy production (not included in scope 1 and 2)	516.71
Waste	134.09
Transport and distribution	2,287.51
Business travel	1,487.00
Commuting	3,917.57
Leased assets	0

Organisational boundaries

The calculation of Company's emissions is performed under operational control criteria. The inventory only applies to the activities that take place in Spain.

Operational scope:

Emissions associated to Company's activities and facilities are quantified, taking into consideration the following scopes:



Scope 1: Direct GHG emissions (Greenhouse gases)

Emissions resulting from the Company's controlled or owned sources:

- Fugitive Emissions: SF₆ gas leaks in electricity substations and refrigerant gases leaks from air conditioning systems.
- Mobile Combustion: emissions derived from fuel consumption of the fleet.
- Stationary combustion: derived from the combustion of fuels used in diesel generating sets. (No other stationary combustion source exists in the Company).

Scope 2: GHG indirect emissions from electricity consumption

- Electricity consumption
- Electricity losses in the transmission grid.

Scope 3: Other indirect GHG emissions

- Supply chain: Purchase of goods and services.
- Capital goods.
- Life cycle of fuel and energy consumed: emissions due to energy production (not included in scope 1 and 2).
- Upstream transportation and distribution.
- Waste management.
- Business travel by plane, train and car (taxi, private and rented vehicles).
- Employees commuting to the work place.
- Leased assets (downstream).

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

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 2017 fiscal year.

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.

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

demanding 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 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

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 of 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.





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- 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.

WHISTLE-BLOWING CHANNEL

In order 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, the Red Eléctrica Group 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 non-compliance, grievance, enquiry and suggestion

regarding ethical matters received whilst preserving the confidentiality of those using this channel.

Regarding the whistle-blowing channel for the detection and handling of possible non-compliances, grievances, enquiries and suggestions, in 2017, 26 enquiries 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:

- 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.

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 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 the person's duties as a social representative. The processing of this grievance case regarding the Code of Ethics was suspended owing to the fact that the Human Resources Department initiated a procedure to gather information in relation to the facts reported through the whistle-blowing 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 immediately. At the close of 2017, said grievance case was in the processing stage.





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- 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 verified, a communication has been sent to the interlocutor in question, reminding them of the 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 with 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 given sufficient time to provide supporting evidence; as no supporting evidence was received, the grievance case 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 clearly attributed or even coincided with the voltage drops indicated in the grievance.

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.

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 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





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a guide regarding the prevention of corruption for all professionals in the companies of the Red Eléctrica Group, setting out the commitments and action criteria, thereto, that should govern their professional activities within the same. Its purpose is to provide members of the Red Eléctrica Group an analysis of the circumstances and the risks they face regarding corruption and advance the dissemination of the criteria and the instruments available to the Company for its eradication.

Over the last year, no grievance has been registered through the whistle-blowing channel regarding possible cases of corruption. No company of the Red Eléctrica Group has been subject to investigation or convicted by any court of law for any non-compliance related to cases of corruption, in line with what has been reported in previous years.

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.

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, as well as its inclusion in the Ethibel Excellence Index since 2009.

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 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.





Published by

RED ELÉCTRICA
Paseo del Conde de los Gaitanes, 177
28109 Alcobendas [Madrid]

www.ree.es

Edition and co-ordination

Communication
and Corporate Image
Department of
Red Electrica

**Graphic design
and layout**

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estudio@dis-n.es

English Translation by

Wayman English International
www.waymanenglish.com

This English version is a translation
of the original and authentic
Spanish text found in the 'INFORME DE
SOSTENIBILIDAD 2017', originally issued
in Spanish. In the event of discrepancy,
the original Spanish language
version shall prevail.

