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SUSTAINABILITY
REPORT
SUMMARY



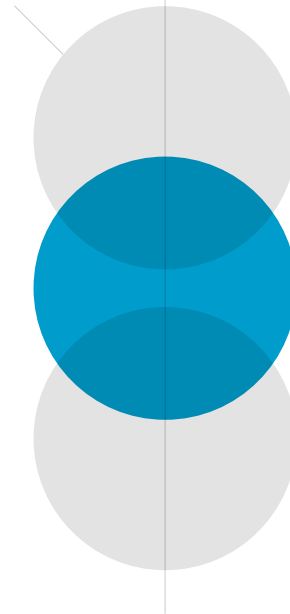
The
value of
**connected
energy**



RED
ELÉCTRICA
CORPORACIÓN

20
17

SUSTAINABILITY
REPORT
SUMMARY



This Report presents a summary of the Sustainability Report 2017. The full version, as well as the legal information (Consolidated Annual Accounts 2017 and Corporate Governance Report 2017) are published solely in electronic format (browsable pdf) and are available on the corporate website www.ree.es.



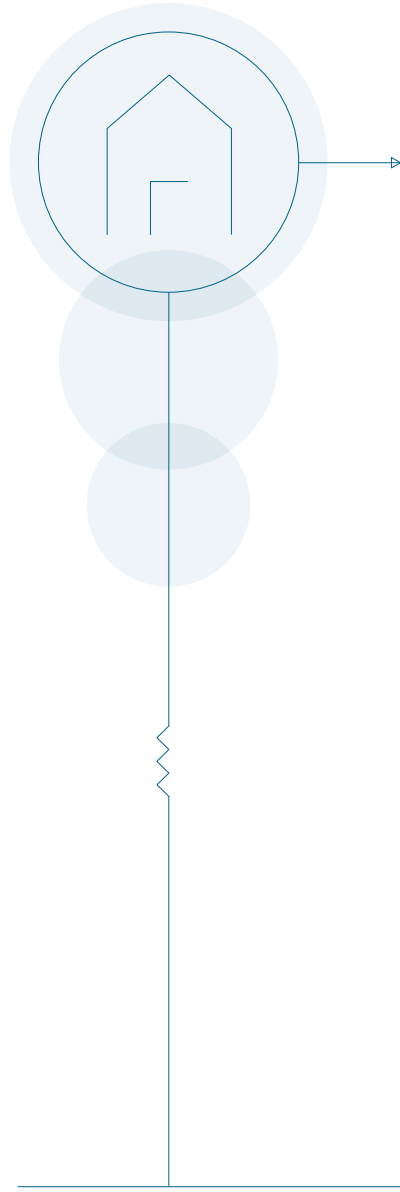
Sustainability Report 2017



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Letter from the Chairman and the CEO



JUAN LASALA
Chief Executive Officer

JOSÉ FOLGADO
Chairman of Red Eléctrica Corporación

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.

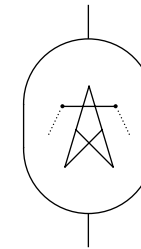
Red Eléctrica, as the centrepiece of the electricity system, is a crucial player in the transition to this new energy model, whose key elements must be the electrification of the economy, the maximum integration of renewable energy in the energy mix and increasing energy efficiency, ensuring at all times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

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.

Investment IN THE TRANSMISSION GRID



411.8
M€
in new line
and new
substation
bays

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 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 Energy 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.



INVESTMENT FOCUS

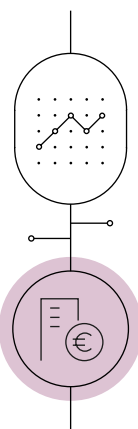
Improvement in
the reliability and
security of the grid
and the development
of interconnections
between electricity
systems.

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 makes up the rest of the infrastructure managed by the Group in that area.

Value CREATION



669.8

M€

of net profit



5.2% higher than in 2016



SHAREHOLDER RETURN

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

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.

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.

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.

This is reflected in the sound financial results obtained: net 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.

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 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.



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.

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.

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. 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%.



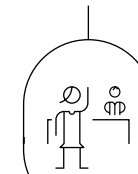
GENDER EQUALITY

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

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. 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.

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



OCCUPATIONAL HEALTH & SAFETY

Significant reduction in the accident frequency and severity rates in 2017.

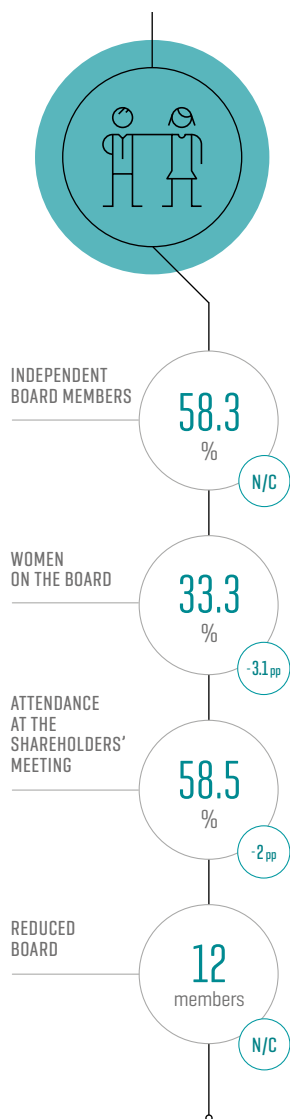
In addition, to assess the beneficial impact of its projects on society, the Company has adopted a methodology that allows the contribution of its investment, as a dynamic element of the country's economic activity, to be measured.

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.

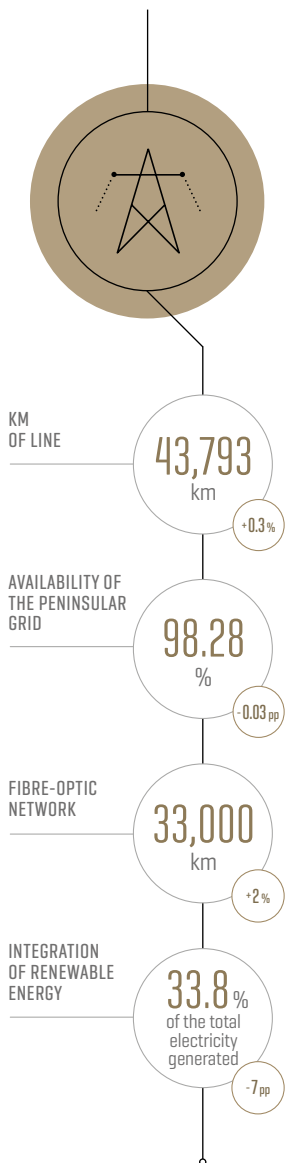
Lastly, it should be noted that Red Eléctrica voluntarily adheres to various initiatives that strengthen its commitment to sustainability, including the commitment acquired through the principles of the United Nations Global Compact.

Key performance indicators 2017

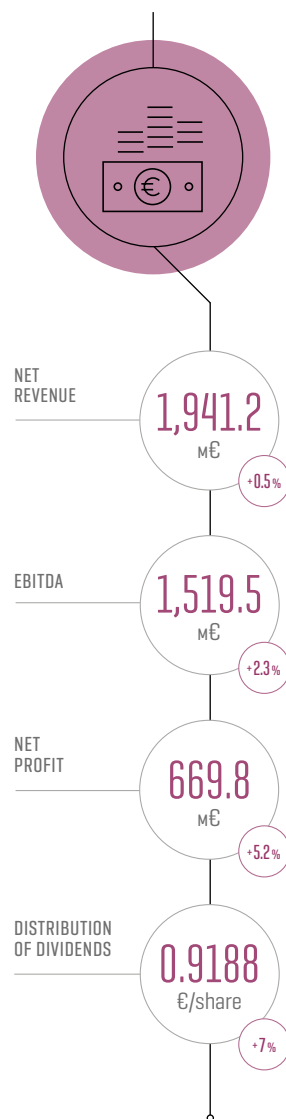
GOOD GOVERNANCE



BUSINESS



FINANCIAL DATA

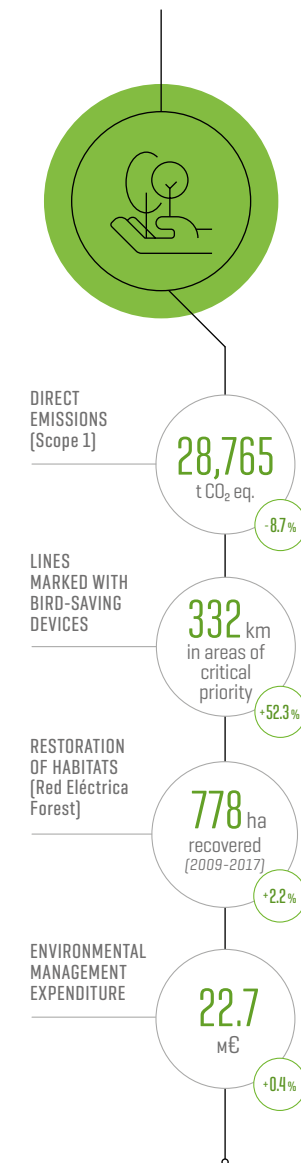


The figures shown in small circles reflect the variation compared to 2016.
pp: percentage points N/C: no change

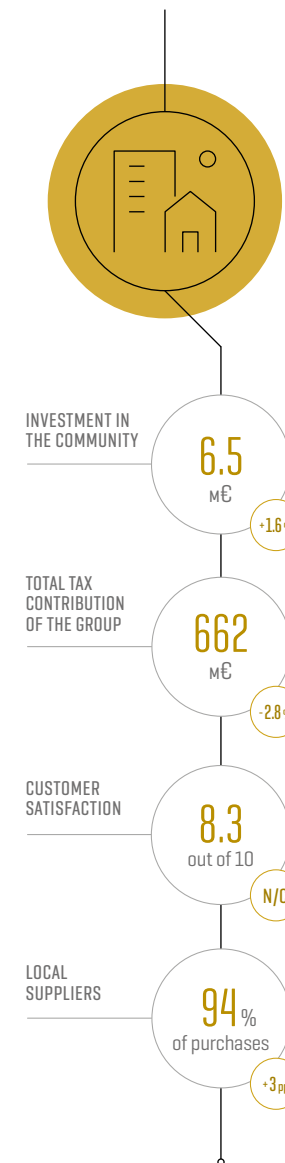
EMPLOYEES



ENVIRONMENTAL



SOCIAL



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

01

THE
COMPANY

The Red Eléctrica Group

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.

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

The Group's international business is geared towards 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 concerning the diversification of activities of the Red Eléctrica Group, with significant advances in international business (new

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

RED ELÉCTRICA GROUP (2017)

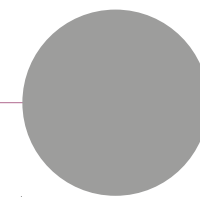
Workforce
1,815
people

Revenue
1,941.2
m€

Stock market capitalisation
10,124
m€ [at year end]

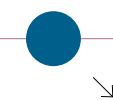
Electricity activity
in Spain

93%
of revenue



Other
activities

7%
of revenue



Activity in Spain



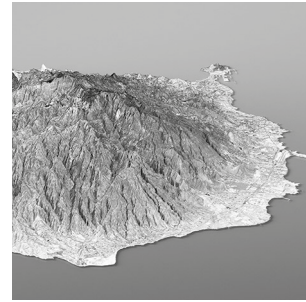
ELECTRICITY ACTIVITY

Red Eléctrica de España is the sole transmission agent and operator (TSO) of the Spanish electricity system. Its mission is to guarantee the security and continuity of the Spanish electricity supply at all times, and to manage the development and maintenance of a safe and reliable transmission grid.



TELECOMMUNICATIONS ACTIVITY

The Group's telecommunications business is conducted through the subsidiary Red Eléctrica Infraestructuras de Telecomunicación (REINTEL). Its main activity is the leasing of dark fibre and sites and technical telecommunications equipment.



ENERGY STORAGE ACTIVITY IN THE CANARY ISLANDS

Red Eléctrica Infraestructuras en Canarias (REINCAN) focuses on promoting energy storage projects in the Canary Islands, developed as system operator tools to help guarantee supply, improve system security and optimise the integration of renewable energy on the islands.

RED ELÉCTRICA DE ESPAÑA

manages a transmission grid of about 44,000 km of electricity line and operates an electricity system with 100 GW of installed power capacity.

REINTEL

manages and operates a fibre-optic network of more than 33,000 km of cable deployed along the electricity transmission grid and the railway network.

REINCAN

will build the Soria-Chira pumped-storage hydroelectric power station that will enable the further development of renewable energy in the Canary Islands.

International activity



ACTIVITY IN PERU

Red Eléctrica Internacional owns 100% of:

- Red Eléctrica Andina (REA), specialised in the maintenance of electricity infrastructure.
- Red Eléctrica del Sur (REDESUR), which together with its subsidiaries, develops electricity transmission projects in southern Peru. In 2017, the Company was awarded a new project in the area.



ACTIVITY IN CHILE

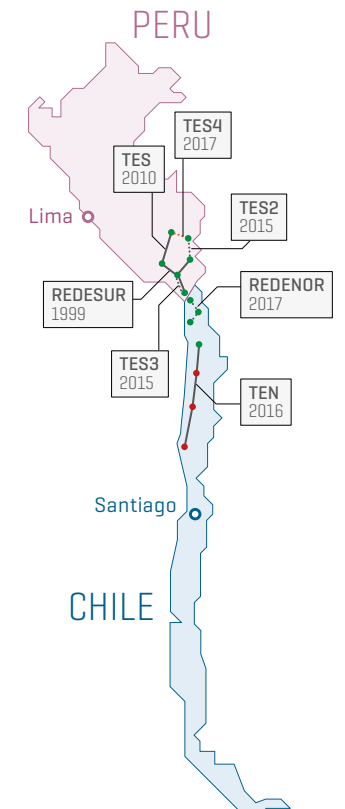
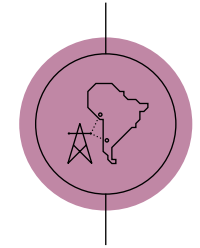
Red Eléctrica Internacional through its subsidiary Red Eléctrica Chile owns:

- 50% of Transmisora Eléctrica del Norte (TEN), which in 2017 commissioned the interconnection line between the electricity systems of the central zone and northern Chile.
- 70% of REDENOR which was awarded a new project in northern Chile in 2017.

RED ELÉCTRICA INTERNACIONAL

manages, through its subsidiaries in Peru and Chile, the Group's international business, which is geared towards the construction and operation of electricity transmission grids outside of Spain.

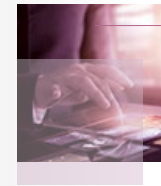
With the incorporation of the new projects for 2017, the Company will manage more than 1,300 km of line in Peru and almost 1,500 km in Chile.



- 220 kV Tintaya-Azángaro line (TES4)
- REDESUR - TES - TEN
- TES2 - TES3 - REDENOR
- 500 kV
- 220 kV
- T.E.S.: Transmisora Eléctrica del Sur (subsidiaries of REDESUR)



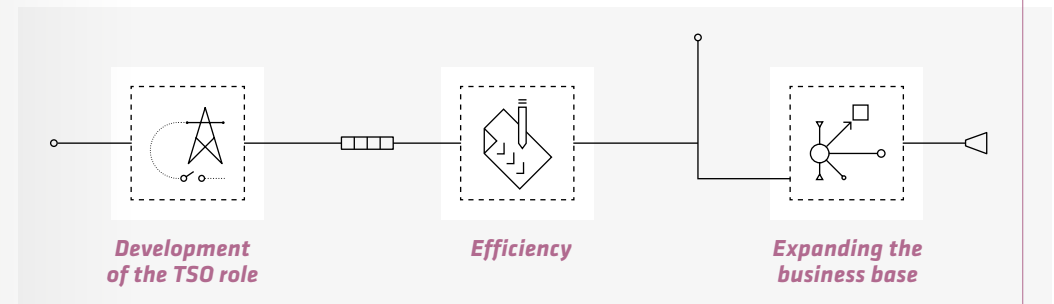
Strategic Plan 2014-2019



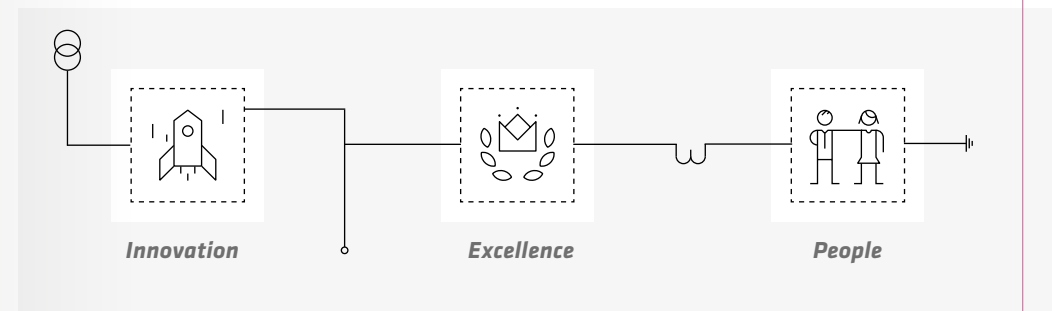
The Strategic Plan 2014-2019 focuses not only on the execution of Red Eléctrica's role as TSO in Spain but also on reinforcing efficiency criteria and driving the expansion of the business base as an alternative path for growth and the creation of value.



ESSENTIAL STRATEGIES



CROSS-CUTTING STRATEGIES



02

STRATEGY

Essential strategies and cross-cutting strategies

Essential strategies



DEVELOPMENT OF THE ROLE AS TSO

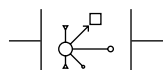
The main activity of Red Eléctrica is linked to its role as sole transmission agent and operator of the Spanish electricity system. Therefore, the Company's core strategy focuses on:

- the development of an increasingly meshed transmission grid that is more robust and better interconnected, and
- the efficient operation of the electricity system, with the aim of contributing to a sustainable energy model through the safe integration of renewable energy and the promotion of projects oriented towards energy efficiency.



EFFICIENCY

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



EXPANSION OF THE BUSINESS BASE

Development of regulated activities that are different from the current and unregulated activities in the scope of telecommunications and the management of infrastructure, as well as expansion into other geographical areas, with the aim of driving the growth path of the Company in the coming years.

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.



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.



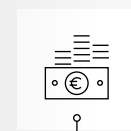
PEOPLE

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

STRATEGIC PLAN SNAPSHOT

TARGETS 2014-2019

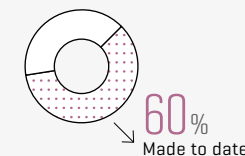
ACHIEVEMENTS 2014-2017



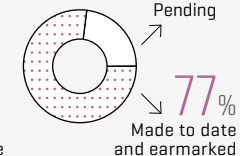
Investment 2014-2019

4,575 M€

CONSOLIDATED ACTIVITIES 3,575 M€



NEW ACTIVITIES 1,000 M€

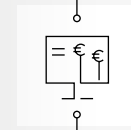


Efficiency 2014-2019

≥ 200 basis points
EBITDA margin in 2019

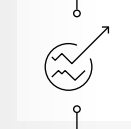
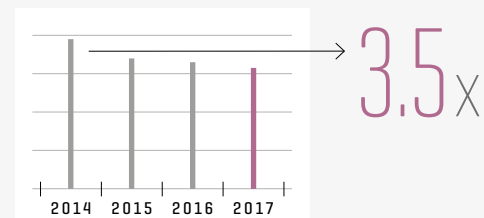
• EBITDA margin 2017 → 78.3%

• Control of operating costs



Financial structure

3.5X
Net debt / EBITDA (average)



Growth 2014-2019

5-6% 7%
EPS [CAGR] DPS [CAGR]

• 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.

03

COMMITMENT TO SUSTAINABILITY

Our commitment to sustainability 2030

The Red Eléctrica Group has undertaken a commitment to sustainability which is strategic, cross-cutting and with a **long-term vision.**

In 2017, the Board of Directors approved the Sustainability Commitment 2030 of the Red Eléctrica Group. This commitment offers a long-term focus, capable of both responding

to new challenges and seizing opportunities that may arise in terms of sustainability, and that is far-reaching in scope and applicable to all activities of the Group.

▼ SUSTAINABILITY PRIORITIES

Decarbonisation of the economy



Anticipating change and taking action



Responsible value chain



Contribution to the development of society

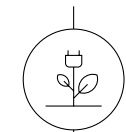


Cornerstones of sustainability

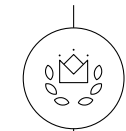
The Red Eléctrica Group understands that ensuring its continuity and success depends on its commitment to sustainability through the **creation of shared value** for all its stakeholders in the responsible development of its activities.

This commitment is based on **ten principles** defined in the Corporate Responsibility Policy of the Company and is set out as **four sustainability priorities** identified as the key drivers to respond to the challenges and opportunities that the Company faces.

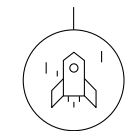
Sustainability BASED ON



Financial sustainability



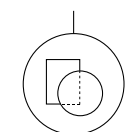
Excellence and corporate responsibility



Innovation



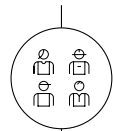
Corporate governance and ethics



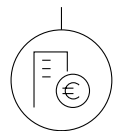
Transparency



Talent, diversity and equality



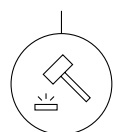
Partnerships with our stakeholders



Creation of shared value



Care for the natural environment



Respect for Human Rights

Sustainability priorities

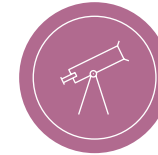


The **four** sustainability priorities are deployed through specific multiannual plans for the companies of the Group and programmes of annual projects. In 2017, the overall degree of fulfilment of the sustainability programme was 91%.



EXCELLENCE IN MANAGEMENT

In 2017, the Company renewed the European Seal of Excellence 500+ with a score of over 700 points.



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 the development of society

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**.

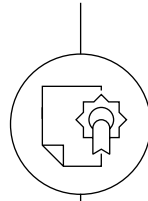
STAKEHOLDER MANAGEMENT

Red Eléctrica has a stakeholder management model that ensures the adequate management of the relevant economic, social and environmental impacts of its activities on stakeholders.

This stakeholder management model incorporates the requirement for rules and standards of reference [AA1000, IQNet SR10, ISO26000 and Global Reporting Initiative].

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

Overall SATISFACTION



of all the stakeholders analysed in 2017 was

8.49
OUT OF 10

LEADERSHIP IN SUSTAINABILITY

The Red Eléctrica Group has been recognised as the best company in the world in sustainability in the Electric Utilities sector by the Dow Jones Sustainability Index (DJSI), with an overall score of 93 points out of 100, reaching the highest rating in 12 of the 23 criteria assessed.

Similarly, the Company leads the Utilities super-sector, encompassing the electricity, gas and water sectors.

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

MAIN RECOGNITIONS RECEIVED BY RED ELÉCTRICA REGARDING SUSTAINABILITY



CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

The design of the Group's Sustainability Commitment 2030 has taken into account the objectives set in the Sustainable Development Goals, so that the sustainability priorities contribute significantly to the achievement of the SDGs.

In this regard, Red Eléctrica endeavours to contribute



to all the SDGs, although it contributes to Goal 7 [Affordable and clean energy], 9 [Industry, innovation

and infrastructure] and 13 [Climate action] mainly due to the nature of its business activities.

SUSTAINABLE DEVELOPMENT GOALS



GOALS MOST CLOSELY LINKED TO THE COMPANY'S ACTIVITIES



04



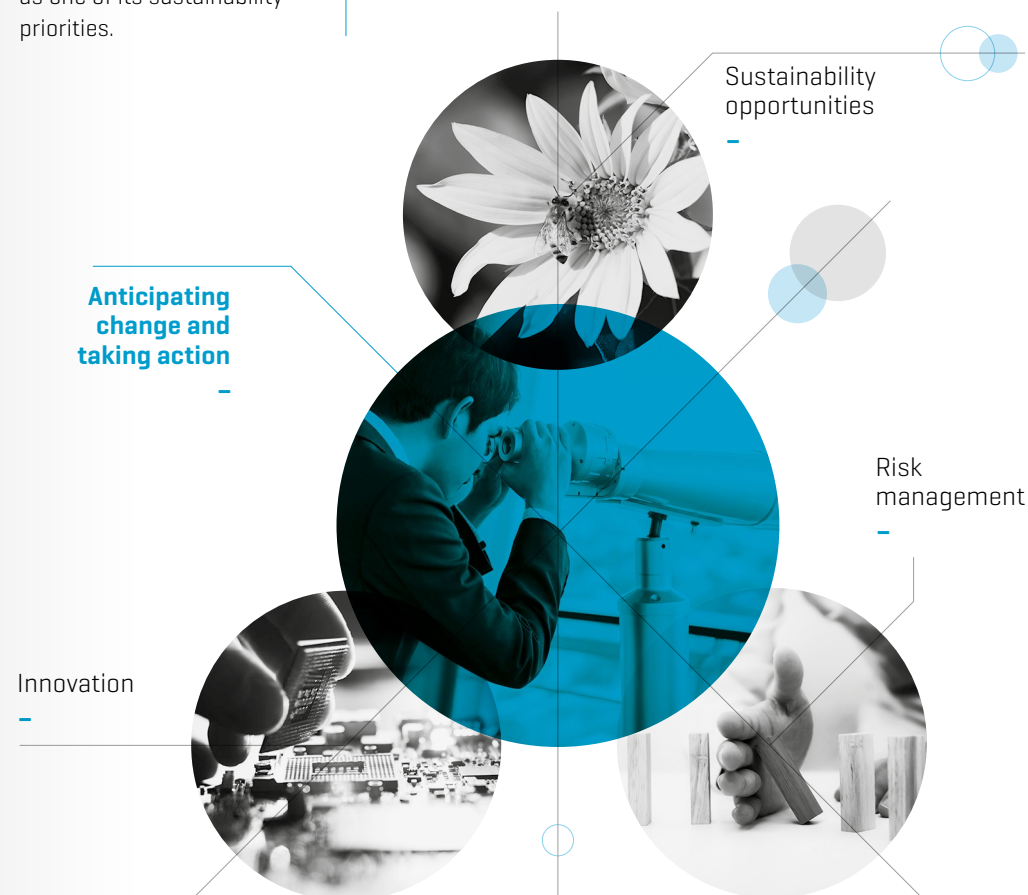
ANTICIPATING CHANGE AND TAKING ACTION

Anticipating change and taking action

The current global context is determined by a constant change in which companies must identify the trends that will affect them in the future, focusing their management in a proactive way that is capable of converting potential risks into opportunities.

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

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.



Sustainability opportunities

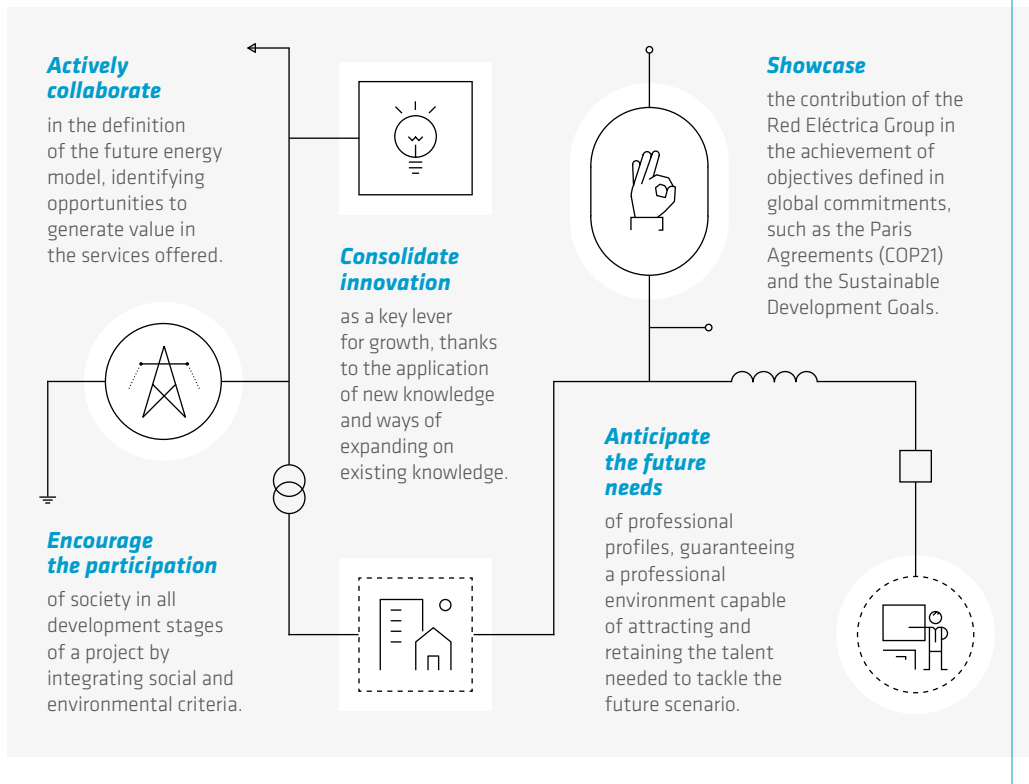
Within the Sustainability Commitment 2030, the Red Eléctrica Group has identified a series of global challenges and opportunities that define the roadmap the Company will follow in the coming years.

The fight against climate change is one of the main existing challenges that offers the opportunity to advance towards a more

sustainable energy model, in addition to promoting the electrification of the economy and fostering electric mobility. In this regard, the need to increase the share of renewable energy in the electricity system through the connection of new facilities and the optimisation of their management, together with the enhancements necessary to improve

system efficiency and changes in mobility policies, with the promotion of rail transport and the development of electric vehicles, represent a clear need for new investment in the transmission grid, in terms of new infrastructures and interconnections and, therefore, represent a clear business opportunity for the Company.

CHALLENGES AND OPPORTUNITIES



Risk management

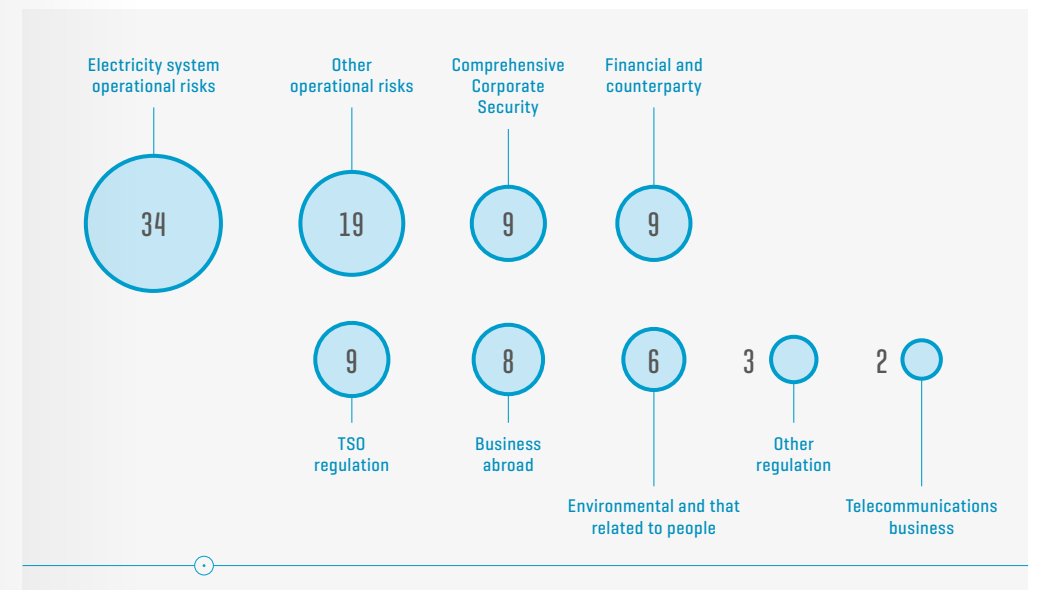
The Comprehensive Risk Management System facilitates the fulfilment of the strategies and objectives of the Group.



The Red Eléctrica Group has a comprehensive risk management system in place that facilitates the fulfilment of the Group's strategies and objectives,

ensuring that risks that could affect them are identified, analysed, assessed, managed and controlled systematically, with uniform criteria

Structure of managed and controlled risk in 2017 %



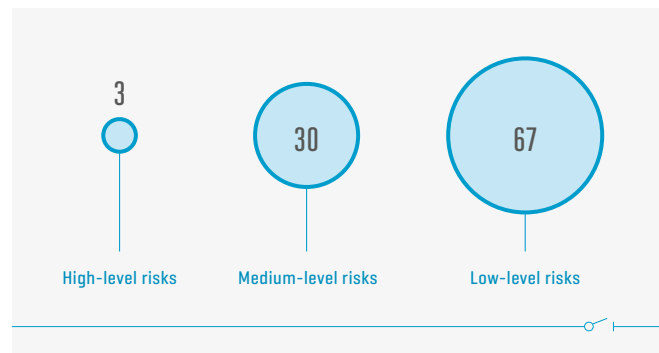
and within the level of acceptable risk approved by the Board of Directors.

This system, which conforms to the ISO 31000 standard on the principles and guidelines in risk management, is complemented by a Policy and a General Procedure for comprehensive risk management and control based on the Integrated Framework for the Management of Corporate Risk COSO II (Committee of Sponsoring Organizations of the Treadway Commission).

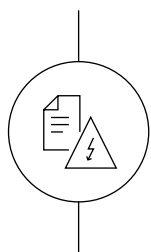
MONITORING AND CONTINGENCY PLANS

In the process of identification, analysis, assessment and control

Classification of managed and controlled risks in 2017
%



OUR RISK MANAGEMENT System



contemplates the monitoring of more than

500 ACTION PLANS

Aimed at reducing the risk level and which includes more than 300 KPIs to monitor their evolution

of risks, the necessary actions are established to reduce the level of risk and bring it to the acceptable risk value.

In 2017, work was undertaken on the development of the regulatory compliance and comprehensive security risks map.

In addition, the Company has contingency plans that govern various crisis situations that could potentially arise in the event of an electrical incident (in order to guarantee the security of supply), or may affect the environment, people, the operation of the Company, the availability of its systems, the business results or any other event with an impact on the reputation of the Company.

RED ELÉCTRICA has an action guide for the management of cyber-incidents, which was updated in 2017.

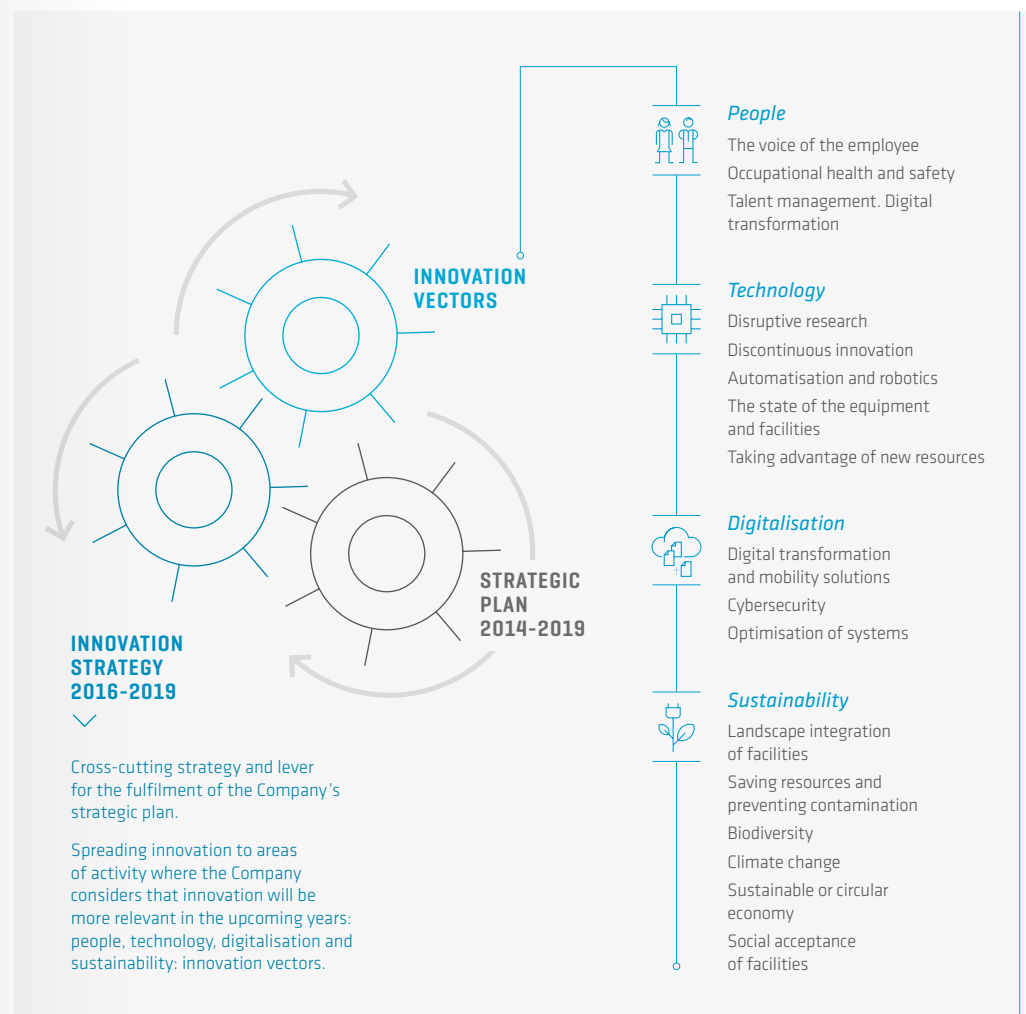
Innovation

The Red Eléctrica Group remains committed to promoting innovation as a lever for growth and efficiency by incorporating technologies, solutions and new ways of working that promote and facilitate

a cultural change in the Group in order to tackle future challenges and for its long-term sustainability.

For this, the Company has an **innovation strategy for 2016-2019** aimed

at spreading innovation to all areas of business activity, focusing mainly on four vectors: people, technology, digitalisation and sustainability.





Based on the objectives and guidelines set out in the innovation strategy, multi-year plans are established per vector in which the key actions and specific activities to be undertaken in each of them are defined.

Regarding technological innovation projects, during 2017, work has been carried out on 85 projects. A few of the most significant ones are detailed below.

Most significant projects currently underway

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

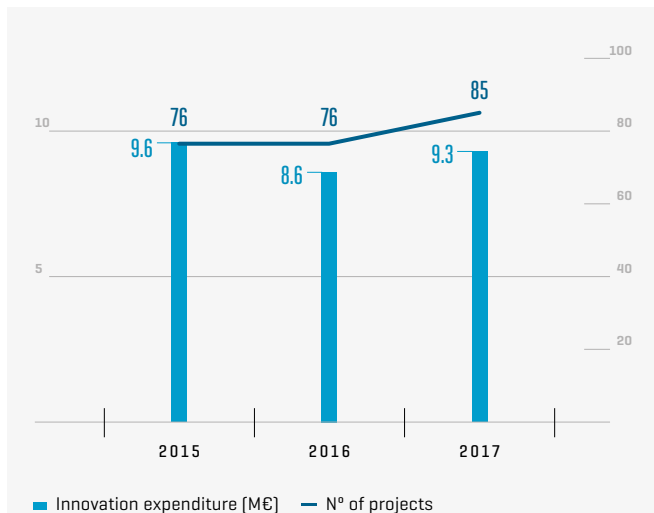
Development of a new methodology to optimise the plan for managing the vegetation growing along the routes of the high-voltage electricity lines.

TRAFO SOSTENIBILE

Approval of the use of natural ester fluids as a refrigerant in standard power transformers.

In the last three years, the average investment in innovation projects stands at 9.17 million euros per year, and the average number of projects underway is 80.

Evolution of innovation



DIGITAL TRANSFORMATION

In 2017, the Company established a digital transformation strategy for the Group that serves as a fundamental element for the deployment of the key actions of the strategic plan and that will facilitate the transformation process of the Company in the coming years.

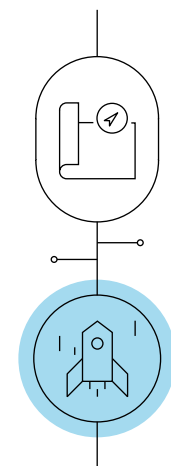
In keeping with this, the digital transformation of the Company seeks to improve operational efficiency, develop new business models and adapt the Group's human capital so that staff are effective working in a digital company.

GRID2030 Innovation programme

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

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

Innovation PROJECTS



85
PROJECTS underway during 2017



THE DIGITAL TRANSFORMATION STRATEGY

- Structured on three axes:
- Cultural change and governance
 - Data technology and efficiency
 - New business



Decarbonisation of the economy

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

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

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

DECARBONISATION OF THE ECONOMY

Energy transition and climate change

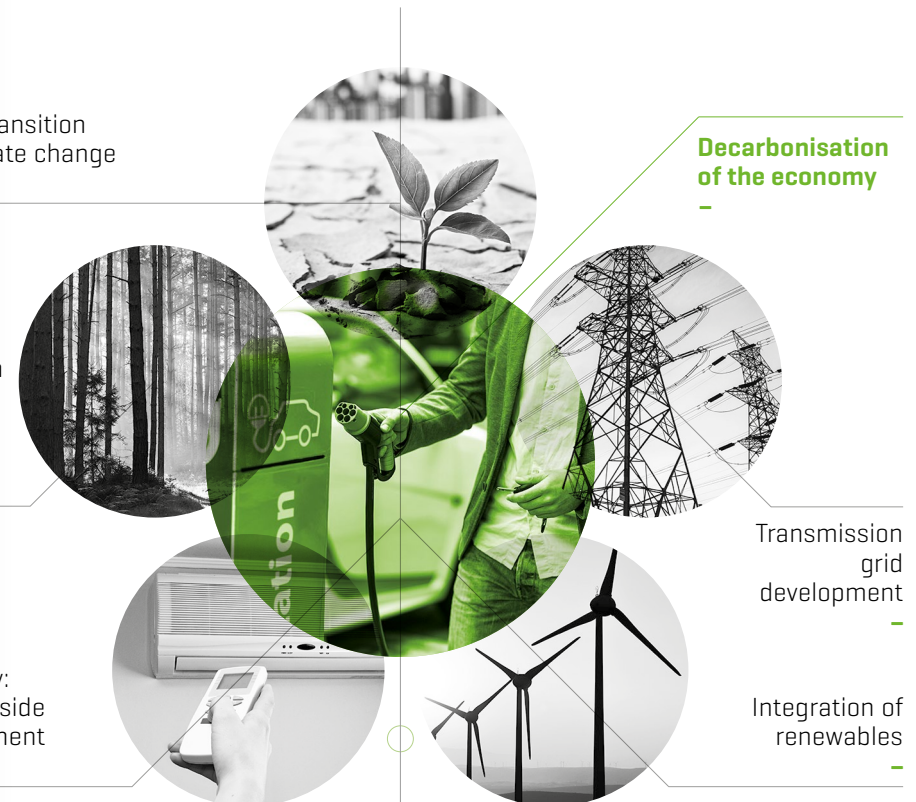
Decarbonisation of the economy

Reduction of the carbon footprint

Transmission grid development

Energy efficiency: demand-side management

Integration of renewables



Energy transition and climate change

The Company gears all its actions towards making the European Union's commitment to energy goals and the fight against climate change a reality, and thus contribute to accelerating the energy transition.

Therefore, aware of its key role in the electricity system, Red Eléctrica has adopted a voluntary commitment in

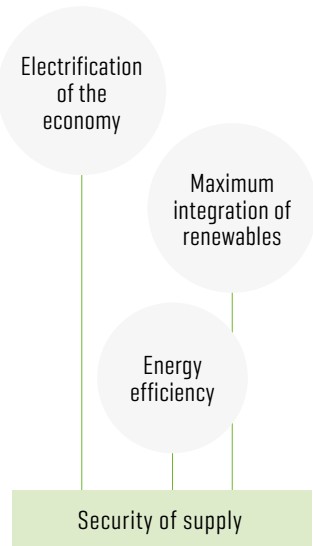
this field, as reflected in its **Climate Change Action Plan** that sets out the emission reduction targets to be

achieved in the 2020 and 2030 horizons and includes the main measures for this to be achieved.

Climate Change Action Plan

TRANSITION TO A NEW ENERGY MODEL

KEY ELEMENTS



Contribution to a sustainable energy model

Develop new electricity infrastructure to facilitate the electrification of the economy, connect new renewable power capacity and provide electrical power for the railway network.

Achieve the maximum integration of renewable energy.

Contribute to greater energy efficiency through demand-side management measures.

Positioning and disclosure

Involve stakeholders in the commitment to fight climate change through:

Actions aimed at raising awareness on how the electricity system works

The promotion of demand-side management measures and the fostering of energy efficiency.

Reduction of the carbon footprint

Improvement of the calculation of the carbon footprint.

Reduction of SF₆ gas emissions.

Decrease in emissions derived from the consumption of electricity.

Improvement of efficiency in mobility, seek greater involvement of the supply chain and increase the offsetting of emissions.

Adaptation to change

Identify and evaluate both the risks and the opportunities arising from climate change and develop actions based on this analysis aimed at mitigating its effects.

Sustainable development of the transmission grid

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

This planning includes the projects of new electricity infrastructure necessary to guarantee the supply nationwide, taking into consideration economic efficiency and the sustainability of the electricity system.

TRANSMISSION GRID CONSTRUCTION

In 2017, investment in the transmission grid has basically been allocated to security of supply, the

Grid CONSTRUCTION

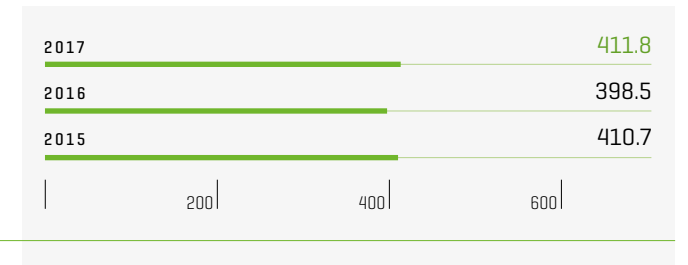


resolution of technical restrictions, the development of interconnections between electricity systems and providing electrical power for the high-speed train.

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 total investment in the transmission grid of 411.8 million euros.

Investment in the transmission grid

m€



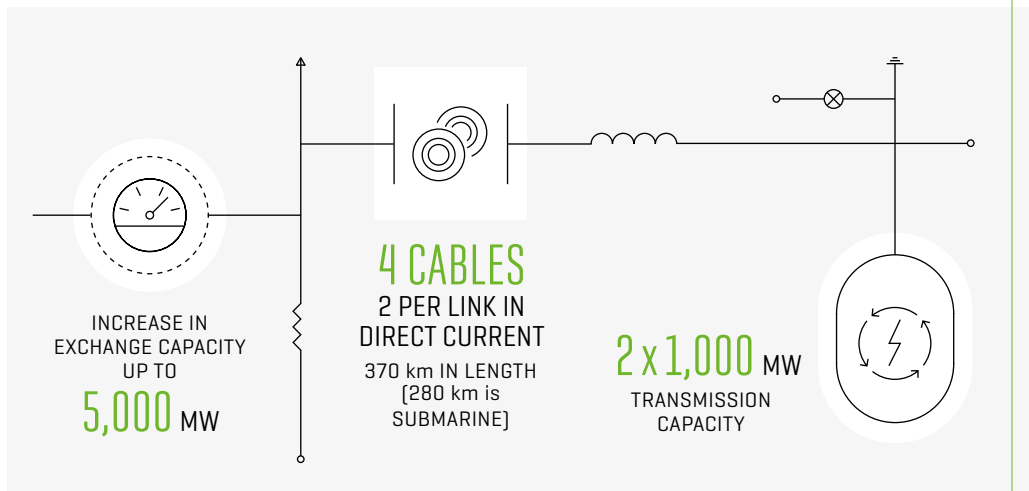
The development of new electricity interconnections with Europe will be **one of the main challenges to be addressed in the coming years.**



Among the projects developed, noteworthy are those aimed at improving interconnections with Europe due to their enormous influence on improving the quality and security of the Spanish electricity system and the integration of renewable energy. In this regard, in 2017 work was carried out on:

- the commissioning of a phase shifter on the Arkale-Argia 220 kV line, and

INTERCONNECTION WITH FRANCE VIA THE BAY OF BISCAY / KEY DATA



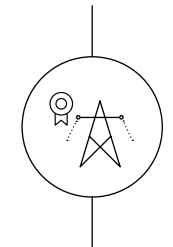
- at the beginning of the public information consultation process of the submarine interconnection project with France through the Bay of Biscay. This new electricity link will increase the exchange capacity between Spain and France up to 5,000 MW.

SERVICE QUALITY

The service quality indicators once again show the high level of security and quality

of supply provided by Red Eléctrica's facilities, as reflected in the availability rates of not only the peninsular grid but also that of the grids of the Balearic Islands and the Canary Islands. This is achieved, in part, through the efficient application of sustainable and responsible maintenance policies regarding the transmission grid facilities.

Quality INDICATORS



HIGH DEGREE OF SECURITY AND QUALITY

of supply provided by electricity facilities

↓
Thanks to the efficient application of maintenance policies

Electricity transmission grid infrastructure

	Total
km of line	43,793
Overhead lines [km]	42,011
Submarine cable [km]	835
Underground cable [km]	947
Substation bays [n°]	5,601
Transformer capacity [MVA]	86,654

Peninsular and non-peninsular cumulative data as at 31 December 2017. Provisional data pending audit.

Service quality. Transmission grid availability rate

	2015	2016	2017
Peninsular transmission grid	97.92	98.31	98.28
Balearic Islands transmission grid	96.86	96.93	97.84
Canary Islands transmission grid	96.74	98.06	98.12

Provisional data pending audit.

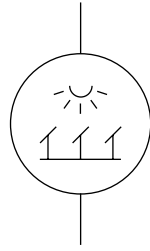
RED ELÉCTRICA
manages around 44,000 km of electricity line nationwide.

Integration of renewable energy



As operator of the electricity system, the core mission of Red Eléctrica is to **guarantee the security and quality** of the electricity supply, maximising the integration of renewable energy.

Renewable ENERGY



33.8

%

share of the electricity generation mix on the peninsular electricity system

To this end, the control and supervision work carried out by the Control Centre of Renewable Energy (CECRE) is essential.

During 2017, the production of energy from renewable sources represented 33.8% of the total energy production generated in the peninsular electricity system.

In line with previous years, noteworthy is the important contribution of wind power generation with 19% of the total production. This ranks wind in second place, behind nuclear energy, among the technologies included in the complete set of generating facilities in the peninsular system.

The 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, since, in addition to improving the security of supply, it will enable a greater development of renewable energy on the island of Gran Canaria.

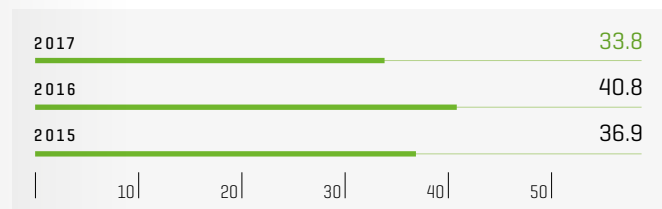
Almacena Project

This electrochemical storage system (with a power of 1 MW and a capacity of 3 MWh) came into operation in 2014 in Carmona, Seville, and over the years has served the purpose of testing functionalities geared towards favouring the integration of renewable energy and the improvement of the operational services of the system.

ENERGY STORAGE PROJECTS

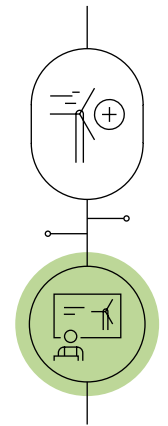
In order to improve the guarantee and security of the system and the integration of renewable energy, Red Eléctrica is carrying out several projects aimed at energy storage, conceived as a tool for the system operator that helps optimise the efficiency of the electricity system.

Electricity generation with renewable energy on the Spanish peninsula ⁽¹⁾



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

Wind power GENERATION



19

%

share in the peninsular electricity generation mix



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.

Energy efficiency: demand-side management

Red Eléctrica continues to actively work on the promotion, development and dissemination of initiatives in the field of demand-side management and smart grids, with the aim of contributing to maintain the guarantee of supply and promote the integration of renewable energy, the reduction of polluting gas emissions and fostering the sustainable use of energy.

The **main initiatives** in the field of **demand-side management** are described below:



Interruptibility Service

Through this tool, the industrial consumers that provide this service reduce their consumption, at the request of the system operator, up to certain predetermined values, thus providing a **fast and efficient response to the needs of the electricity system**.



Smart grids

Initiatives in this field are aimed at anticipating solutions in the field of new energy storage technologies, dynamic capabilities of the grid, monitoring of grid elements and infrastructure, self-consumption, the electric vehicle and new consumer options all of which are already currently shaping the **electricity grid of the future**.



Electric vehicle

In 2017, the **CECOVEL project** (Electric Vehicle Control Centre) was commissioned, an initiative to support electric mobility that allows the demand originating from the recharging of electric vehicles to be monitored.



Active citizen

In the transition towards a new, more dynamic energy model, the **role of citizens as key protagonists in system operation** is becoming increasingly prominent. Therefore, it is essential to promote initiatives to make information about the situation of the system available to citizens or to disseminate recommendations on best practices for efficient consumption.



Profiling Service

With the aim of having a greater knowledge of the hourly consumption of households, small businesses and services, since 2013 the **PERFILA project** has been underway, which enables the analysis of hourly data coming from a panel of 25,000 consumers who have a smart meter. This information has been used to draft the proposals regarding the initial consumption profiles of recent years.

Reduction of the carbon footprint

Red Eléctrica strives to improve the calculation of its emissions and **reduce them as much as possible**.

In 2017, the review of existing reduction targets was carried out to align them with the commitment adopted in Paris (COP21) to limit global warming.

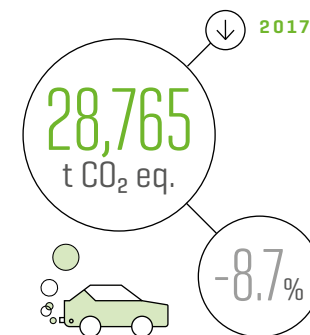
CONTROL OF SF₆ EMISSIONS

The main direct emissions derived from the activities of Red Eléctrica are those of sulfur hexafluoride (SF₆) and for this the Company has various courses of action underway aimed at improving knowledge about and control of the gas and the reduction of leaks. These



include: improvement in the control procedures, supply of the most efficient equipment with the lowest leakage rate, training on gas handling procedures and the development of innovation projects to improve its management.

Direct greenhouse gas emissions



EFFICIENCY IN ELECTRICITY CONSUMPTION

In 2017, a reduction of 82.6% of the emissions associated with electricity consumption was achieved with respect to 2015, thanks to the implementation of efficiency measures and the contracting of renewable energy for its supply to the Company.

SUSTAINABLE MOBILITY

Red Eléctrica has been working for some years on the optimisation of work-related travel and the reduction of emissions associated with them. To this end, it has a Sustainable Mobility Plan in place whose main courses of action are: an improvement of the energy rating of the vehicles used, the optimisation of business trips and the rationalisation in the use of private vehicles for the daily commute.

OFFSETTING EMISSIONS

In order to advance more quickly in reducing the carbon footprint, it is important to focus on ways of offsetting it. In this regard, the Company offsets its emissions through the planting of trees as part of the 'Red Eléctrica Forest' project.

Emission reduction targets

2020

Reduction of 10% of total emissions from scope 1 and 2 per MWh transported compared to 2015.

2030

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

Responsible value chain

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

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

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

Responsible value chain

Customer focused

Supply chain

Responsible environmental management

Good governance

Ethics and compliance

Economic impact and financial soundness

Employees

RESPONSIBLE VALUE CHAIN



Good governance

From the outset, Red Eléctrica has maintained a constant and firm commitment to adopting best corporate governance practices. This is made possible not only by complying with the applicable legal regulations and the most widespread national and international recommendations on the subject, but also by voluntarily implementing a series of measures and initiatives targeted at the core of the most important issues regarding good governance of the Company, and which are of most concern to and demanded by shareholders, investors and the markets.



Shareholder structure %



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 directors 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 contents of the Annual Corporate Governance Report 2017.
- Transparency in matters of tax policy.
- Annual disclosure of improvements regarding corporate governance.

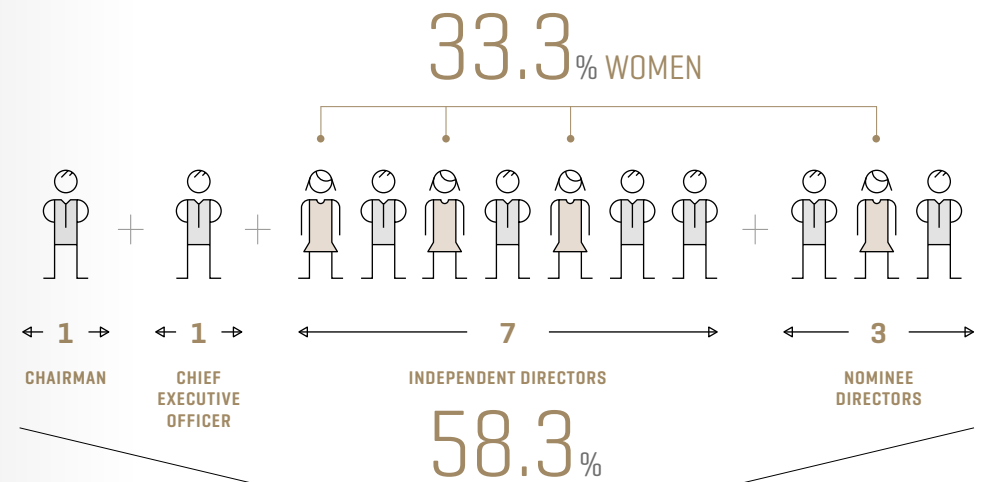
RECOGNITIONS

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

GOVERNANCE STRUCTURE OF RED ELÉCTRICA

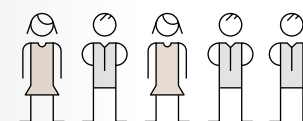
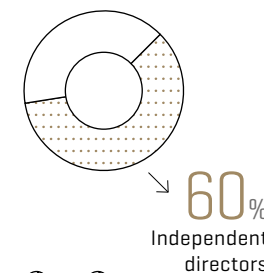
GENERAL SHAREHOLDERS' MEETING

BOARD OF DIRECTORS AS AT 31 DEC 2017



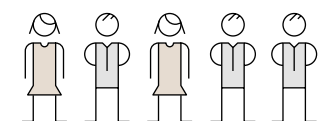
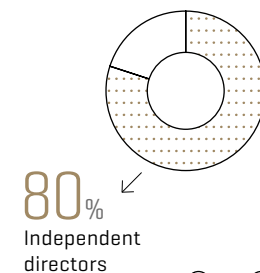
APPOINTMENTS AND REMUNERATION COMMITTEE

CHAIRMAN
Independent director



AUDIT COMMITTEE

CHAIRMAN
Independent director



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 Andrés
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

Ethics and compliance

Ethics and compliance for the Red Eléctrica Group are fundamental pillars for the proper functioning of the business activity. To this end, it 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 Red Eléctrica Group in the performance of their professional activities.

In addition, the Company develops a Compliance System aligned with the best practices in this area, aimed at ensuring that the organisation adequately respects the established obligations and the commitments undertaken.

Noteworthy actions in 2017

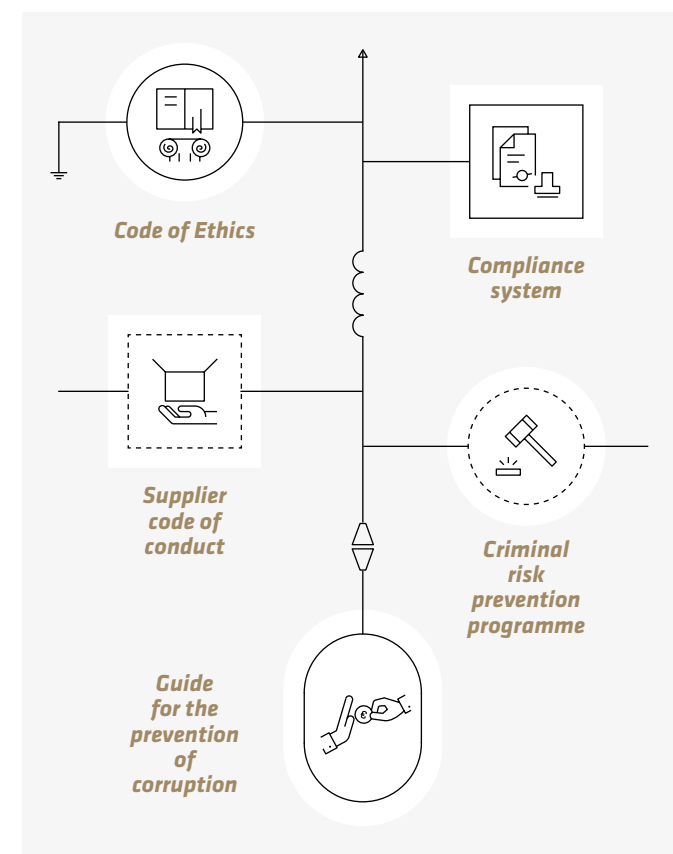
- Definition of a specific methodology for the assessment of compliance risks.
- Drafting of the preliminary map of compliance risks.
- Development of the awareness and disclosure plan regarding the compliance system.
- Launching of the Compliance Forum.

Similarly, it has a human rights management model aligned with the Guiding Principles on Business and Human Rights of the United Nations.

For the third consecutive year, the Company has obtained the highest score

(100 points) in the Code of Conduct / Compliance / Anti-corruption and Bribery section of the Dow Jones Sustainability Index.

INTEGRITY MODEL



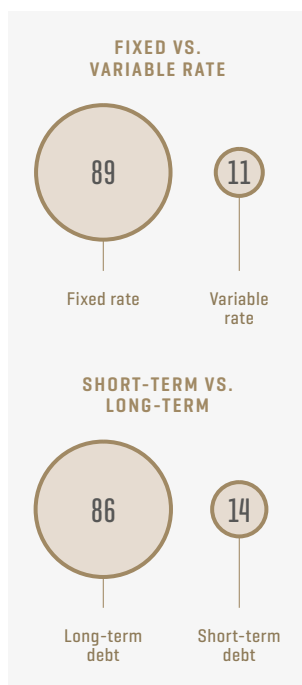
Economic impact and financial soundness

During 2017, Red Eléctrica showed stable growth, in line with that established in its strategic plan. The Company has 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.

SHAREHOLDER RETURN

In 2017, direct return to the shareholder in the form of dividends grew by 7% compared to the previous year. **The gross dividend to be distributed is 0.9188 euros per share.**

Financial debt structure %



On 5 January 2018, a gross interim dividend pay-out of 0.2549 euros per share was made, with 0.6639 euros per share pending distribution

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.

Key financial indicators

	[m€]		
	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	850.8	890.2	4.6%
Net profit	636.9	669.8	5.2%
Non-current assets	9,256.8	9,214.2	-0.5%
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.

Employees

Red Eléctrica is committed to stability in employment, equal opportunities, talent management and occupational health and safety.



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] work in Spain and 4% in Peru and

Chile. However, it should be noted that the majority of the employees work for Red Eléctrica de España.

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 posts]	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

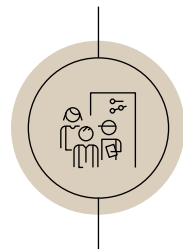
[1] As of 2017 data includes: Red Eléctrica de España + Red Eléctrica Corporación + REINCAN + Red Eléctrica Internacional + REINTEL. [2] Data includes: Red Eléctrica de España + Red Eléctrica Corporación.

Red Eléctrica has obtained the highest score (100 points) in the Dow Jones Sustainability Index evaluation in the criteria **Development of Human Capital** and **Labour Practice**.

The Company offers its employees quality and stable employment, and outstanding professional career development.

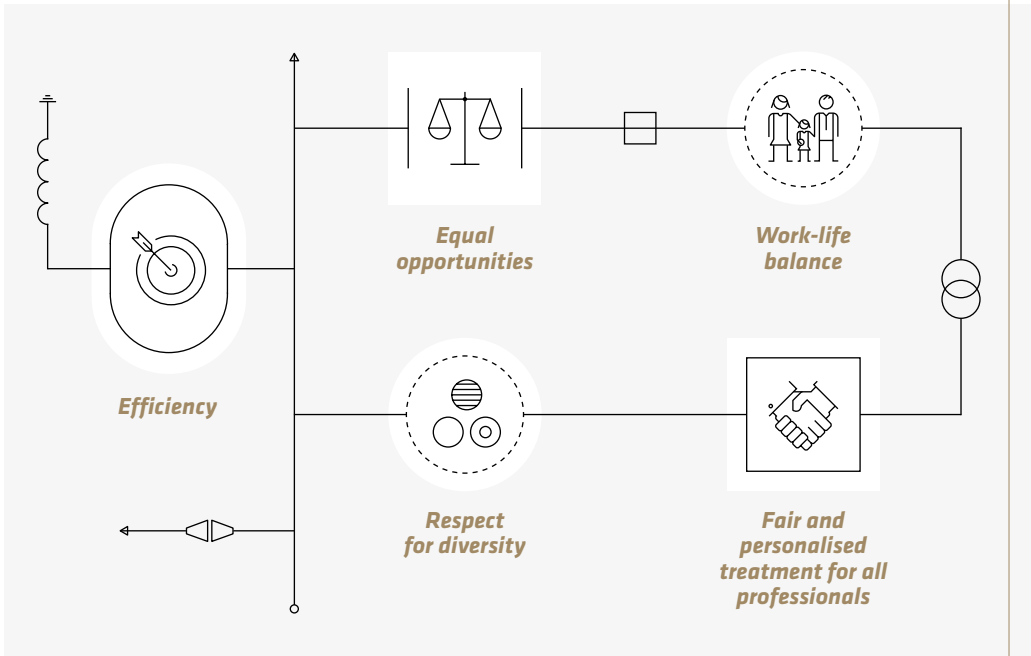
In 2017, 100% of the appointments to managerial positions were covered through internal promotion.

GRUPO RED ELÉCTRICA
Workforce



1,815
PEOPLE

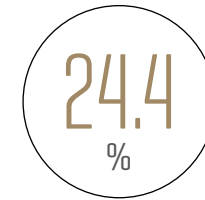
PRINCIPLES OF THE HUMAN RESOURCES DIRECTOR PLAN



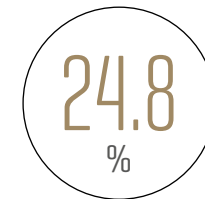
Red Eléctrica offers the **same** Professional development **opportunities** to men and women. Proof of this is that **83.3%** of the new appointments to managerial positions were women.

Percentage of women

IN THE WORKFORCE



IN MANAGERIAL POSITIONS



Training hours per employee

2017	108
2016	82
2015	100

Investment in training per employee

€

2017	4.398
2016	3.431
2015	3.984

Data of the Group in Spain.

diversity when faced with barriers of gender, age and disability.

TALENT MANAGEMENT

To promote the training and professional development of its employees, the Company has opted for a global model of talent management, which in 2017 focused on the design and optimisation of the training model, aligning the content with the three business levers of the new Red Eléctrica Campus: strategy and leadership, transformation and innovation, and culture.

Red Eléctrica Campus

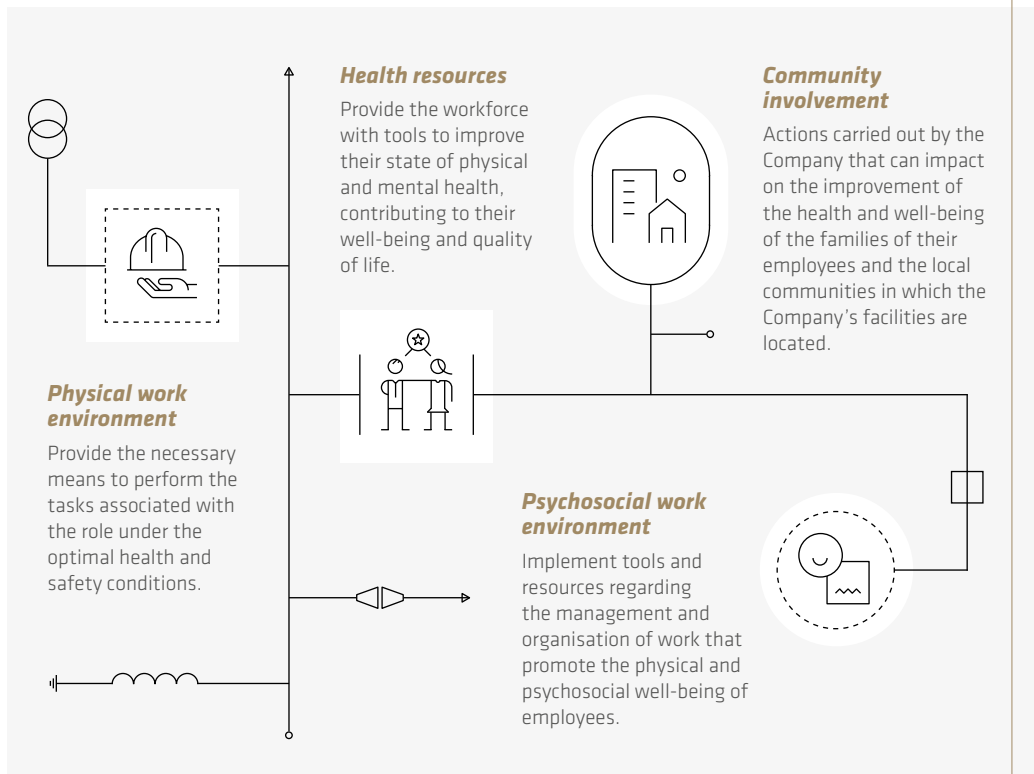
In 2017, the Red Eléctrica Campus project was completed, becoming the Company's corporate university. Its mission is to serve as a platform for the deployment of the strategy, values and culture of the Red Eléctrica Group that facilitates the achievement of business objectives. This project will serve as a model to manage the transformation of the Company in the coming years.



HEALTHY WORKPLACE

Red Eléctrica promotes the best practices in occupational health and safety and well-being through the commitment and leadership of the management team. To this end, it has the 'healthy workplace' model in place, a key element for the promotion of occupational health and safety, which

HEALTHY WORKPLACE MODEL / PRINCIPLES



86% of the workers took part in the working climate survey conducted in 2017, which encompassed the entire Group, and resulted in a satisfaction level of 8.9 out of 10.

revolves around four main lines of action.

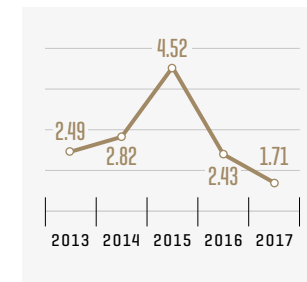
One aspect to which the Company attaches special significance is health and safety at work. In 2017, there was an improvement in the main accident indicators for both Company employees and employees of contracted companies. Compared to 2016, the frequency rate and severity rate experienced a reduction of 29.6% and 44.4% respectively within the Group's companies in Spain.

Health promotion

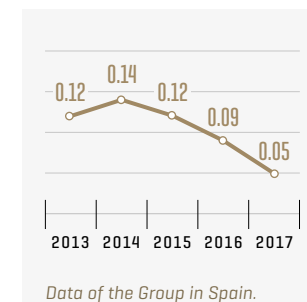
In 2017, Red Eléctrica received recognition from the Spanish National Institute of Safety, Health and Well-being at Work for its 'Best Practices for the Promotion of Health in the Workplace' model and has won the Ágora Bienestar Award 2017.

Similarly, in the contracted companies the frequency rate was reduced by 29% and the severity rate by 13%.

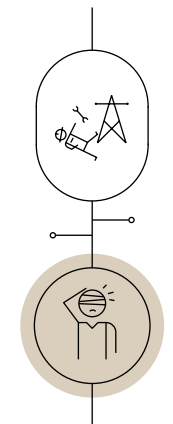
Accident frequency rate [EMPLOYEES]



Accident severity rate [EMPLOYEES]



Significant reduction IN ACCIDENT INDICATORS [employees]



-29.6% in the frequency rate

-44.4% in the severity rate
↓
Compared to 2016

Responsible environmental management

Red Eléctrica carries out all its environmental protection activities in accordance with the principles established in its environmental policy

and has an environmental management system certified according to the ISO 14001 standard and registered in the Community Eco-Management and Audit System (EMAS). In 2017,

the Company approved a new multi-year Biodiversity Action Plan that lays down the challenges and main objectives for the period 2017-2021.

INTEGRATION OF FACILITIES INTO THE ENVIRONMENT

Minimising the impact on the socio-economic environment

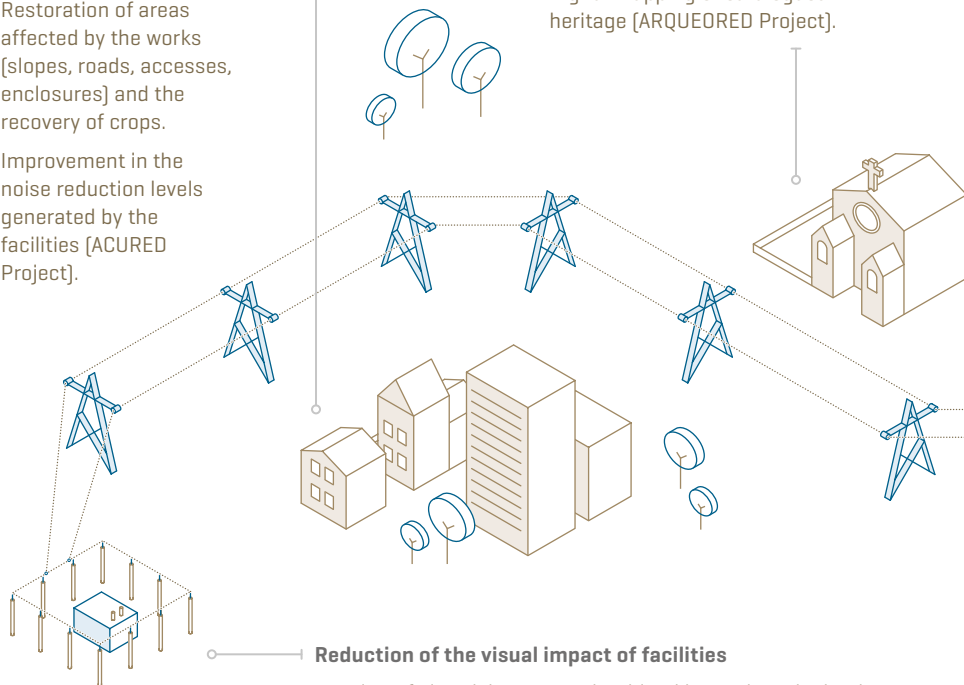
- Use of a boom crane or helicopter for assembling electricity towers.
- Restoration of areas affected by the works (slopes, roads, accesses, enclosures) and the recovery of crops.
- Improvement in the noise reduction levels generated by the facilities [ACURED Project].

Protection of archaeological and ethnological heritage

- Archaeological survey prior to the works.
- Presence of an archaeologist when the results of the survey so determine.
- Digital mapping of catalogued heritage [ARQUEORED Project].

Reduction of the visual impact of facilities

- Design of electricity towers that blend better into the landscape.
- Landscape integration of substation buildings.
- Restoration of affected areas and the creation of vegetation screens.

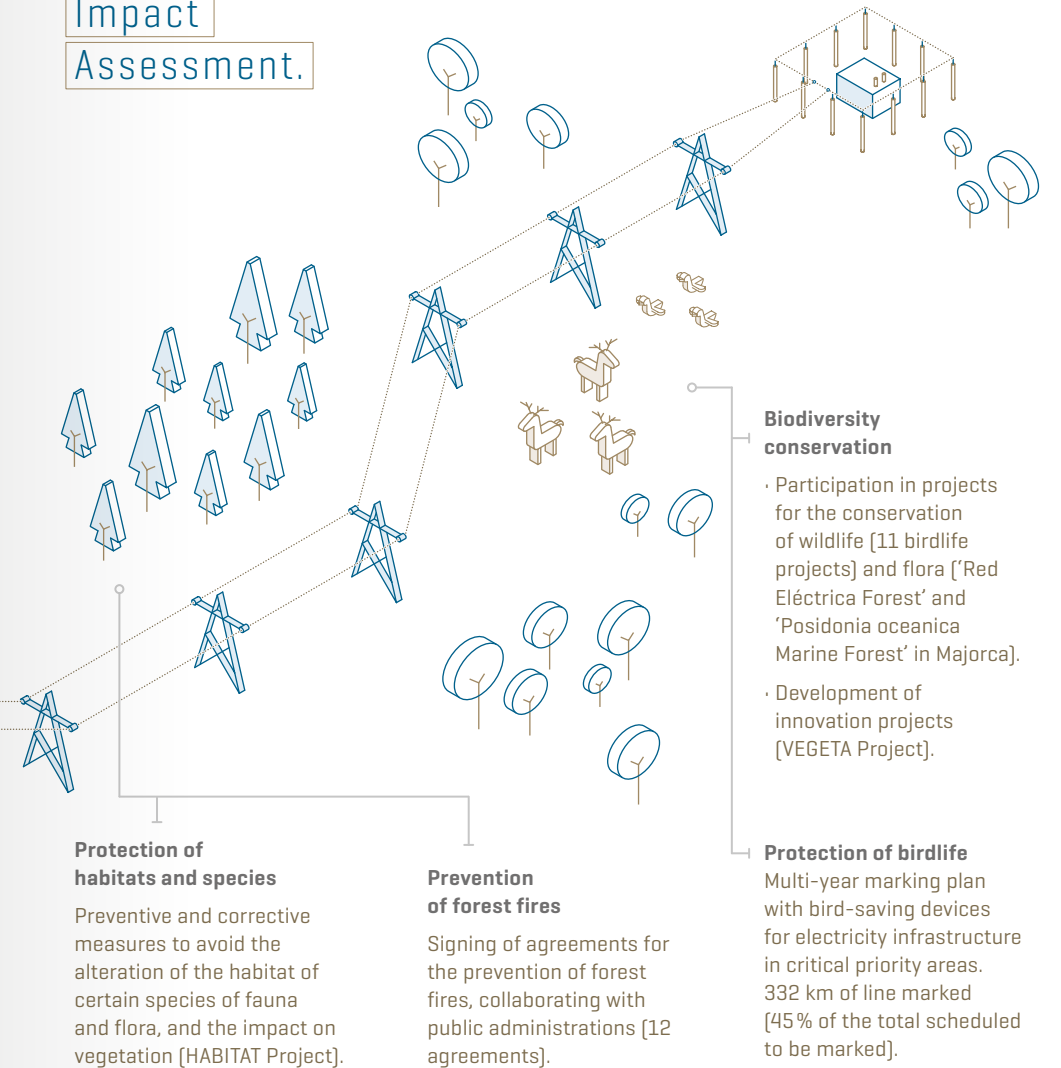


100% of projects undergo an Environmental Impact Assessment.

BIODIVERSITY

Red Eléctrica's facilities occupy just 0.08% of the Red Natura Española (Natura 2000 Network).

Of the total infrastructure existing in 2017, only 15% of the lines and 5.9% of the substations are located in protected areas (Red Natura).



Protection of habitats and species

Preventive and corrective measures to avoid the alteration of the habitat of certain species of fauna and flora, and the impact on vegetation [HABITAT Project].

Prevention of forest fires

Signing of agreements for the prevention of forest fires, collaborating with public administrations [12 agreements].

Biodiversity conservation

- Participation in projects for the conservation of wildlife (11 birdlife projects) and flora ('Red Eléctrica Forest' and 'Posidonia oceanica Marine Forest' in Majorca).
- Development of innovation projects [VEGETA Project].

Protection of birdlife

Multi-year marking plan with bird-saving devices for electricity infrastructure in critical priority areas. 332 km of line marked [45% of the total scheduled to be marked].

Supply chain

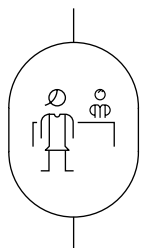
The Supplier Code of Conduct guarantees the sustainable management of the supply chain.

Red Eléctrica has a sustainable supply chain management model that is governed, among other things, by the Procurement Policy guidelines and falls within the framework of the relationship established in the Supplier Code of Conduct.

In this regard, the Company incorporates criteria regarding occupational health and safety, environmental, ethics and the working conditions of its suppliers as part of its entire purchasing process. For key and recurring supplies, these requirements are verified initially in the supplier qualification process and, subsequently, as part of the relationship maintained between the parties going forward.

In 2017, the Company managed its purchases of goods and services through 1,054 suppliers, for a total of

Code
OF CONDUCT



75
AUDITS
conducted on
suppliers
during 2017

↓
Regarding
compliance
with the Supplier
Code of Conduct



SOCIAL
AUDITS

As a result of social audits, improvements or action plans have been agreed with 63% of the suppliers.

624.7 million euros. 74% of this amount corresponds to services and civil 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

SOCIAL AUDITS

In order to verify compliance with the Supplier Code of Conduct, during 2017 the Company conducted social audits of 75 suppliers. These audits are focused on those supplies that may have a high impact (potential or actual) on working conditions and ethical conduct. Similarly, these audits are conducted on suppliers who have been identified as having committed an infringement of an ethical nature.

Pillars of the sustainable management of the supply chain

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

Customer orientation

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

In addition, the Company is obliged to publish information regarding the price of energy in the markets, as well as information on processes associated with the system

Information platforms

'e-sios' website

Platform to ensure compliance with the legal requirements for communication and disclosure of information on system operation.

IESOE website

Regional information platform for operators of the French, Portuguese, Moroccan and Spanish electricity systems.

operation, guaranteeing at all times the confidentiality of the data provided by the market agents. For this reason, confidentiality is based on the applicable legal requirements as well as on other guidelines and is reflected in its internal procedures. The communication and publication of information takes place through various channels, as shown below.

ENTSO-E transparency website

Platform designed to send data from the electricity markets, according to the provisions of the Transparency Regulation.

SmartVlu App

Application for mobile devices that shows the status of the peninsular electricity system in real time.

Other information channels

Voluntary Price for the Small Consumer (PVPC)

Information related to the PVPC, in compliance with the provisions of Royal Decree 216/2014.

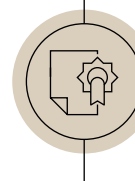
CTSOSEI

Bi-monthly committee in which information is provided on the operation of the electricity systems of Spain and Portugal.

Reporting to ACER (Agency for the Cooperation of Energy Regulators)

Information on explicit capacity auctions and electricity nomination procedures regarding capacities communicated by the participants in said auctions.

Customer
SATISFACTION
STUDIES



The latest study obtained an overall average rating of

8.3
OUT OF 10

↓
Conducted
in 2016

07

CONTRIBUTION TO THE DEVELOPMENT OF SOCIETY

Contribution to the development of society

Companies are increasingly aware that their long-term sustainability depends on providing a service that contributes value to society. Therefore, it is necessary to generate a positive impact on the social environment, whereby the social footprint is one of the key drivers of its corporate management.

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

Contribute to the economic, environmental and social progress of society, through the provision of a key service in a safe and efficient manner. This is achieved by promoting environmental conservation, the quality of life and social well-being of people and involving the community in the execution of our activities, with the goal of generating mutual benefit.

Contribution to the development of society

Tax transparency

Commitment to society

Socio-economic contribution of the projects



Commitment to society

The Company complements its projects in the territory through **collaboration programmes** that reflect its social commitment and contribute to the progress of the communities in which its facilities are located.

The Red Eléctrica Group focuses its socio-environmental commitment towards 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 society and on the territory and its inhabitants.



SOCIAL COMMITMENT

The social programme of Red Eléctrica 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 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.

Protection of natural heritage

One of the challenges undertaken by the Company in keeping with its biodiversity commitment is to promote the conservation of natural heritage through active participation or the promotion of projects in collaboration with the public administration, NGOs and other stakeholders.

Social innovation

Red Eléctrica has taken another step forward in its commitment to generate shared value, creating a **model of social innovation** to identify the challenges, needs and opportunities of each territory, in order to work hand-in-hand by providing innovative and effective solutions for the development of the social environment concerned.

In 2017 the Company participated in several biodiversity conservation projects in eleven autonomous communities, most of which are linked to the conservation of birdlife and the restoration of habitats. Among the latter noteworthy are the following:

- **'Red Eléctrica Forest'**: the planting of trees in order to recover degraded natural spaces, support the development of local economies and offset a part of the Company's emissions.
- **'Red Eléctrica Marine Forest'**: restoration of Posidonia oceanica seagrass meadows in the Bay of Pollensa (Balearic Islands).



POSITONIA OCEANICA SEAGRASS MEADOWS

The Posidonia oceanica seagrass meadows recovery project received the **'Good Practice of the Year Award 2017'** from the Renewable Grid Initiative (RGI).

Dissemination of knowledge

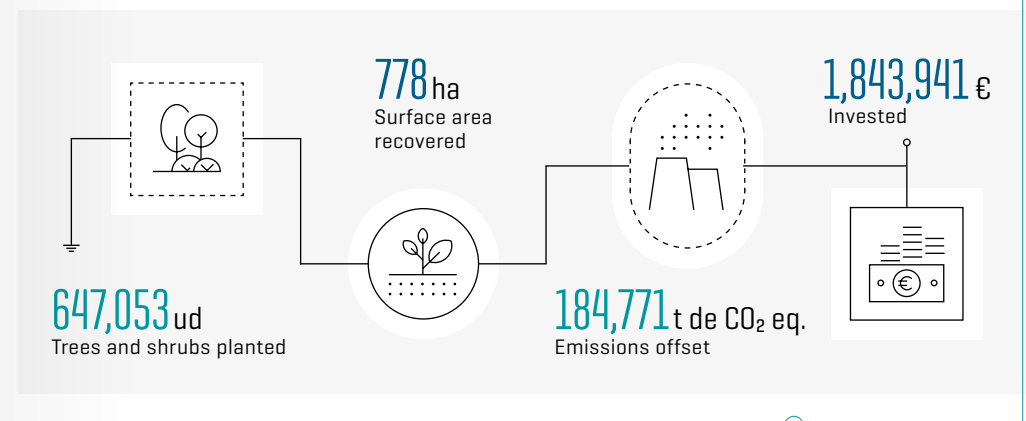
The Company plays an active role in disseminating information and raising awareness regarding the operation of the electricity system and acknowledges that a more informed society has a greater capacity to develop and maintain a

'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.

In April 2017, this travelling exhibition moved to the City of Arts and Sciences in Valencia, where it received more than 550,000 visitors. This exhibition, which began its journey in 2010, has travelled to nine Spanish cities accumulating a total of **more than 900,000 visits**.

RED ELÉCTRICA FOREST IN FIGURES 2009-2017





REE in the classroom

This project is aimed at helping children become efficient consumers of the future who are respectful towards the environment and through their actions contribute to the sustainability of the electricity system.

In this regard, in 2015, the Company created the digital educational game 'entreREDes' through which students of secondary education learn about the functioning of the electricity system and review the contents of the school curriculum in a fun and entertaining way. Until 2017, in collaboration with educational institutions, 18 training activities were organised, in which more than 8,370 school students from 10 autonomous communities took part.

In 2017, noteworthy was the launch of the new website of the telecommunications subsidiary REINTEL

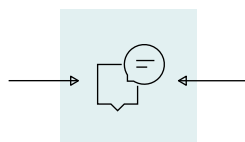
sustainable energy model that effectively meets the energy needs of citizens.

Information transparency

Throughout 2017, information transparency along with an educational approach has continued to be the basis of the Red Eléctrica's relationship with the media. 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 regarding sustainability (25% of the 71 press releases issued in 2017 and 66% of the information published in the 'Entrelíneas' blog were related to sustainability issues).

A key tool in the field of transparency is the corporate website that contributes to improving general knowledge regarding the Company's activities, in addition to acting as a direct channel of communication with stakeholders.

In 2017, visits to the website remained above two million hits and more than one million downloads of various publications were registered. The corporate website is ranked 12th among the best websites of the IBEX 35 companies, according to the international Webranking survey 2017-2018 conducted by the consultancy firm Comprend.



More than **2** million accesses to the corporate website



14 Meetings and press conferences held with the media



57 Interviews and statements

TIES WITH THE COMMUNITY

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.

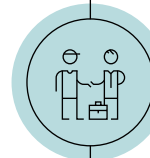
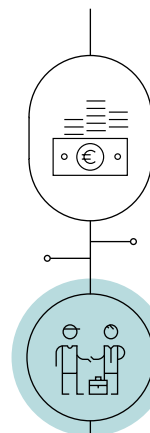
In 2017, noteworthy was the signing of 96 collaboration agreements with public and social entities for the execution of projects mainly regarding socio-economic, environmental, educational and cultural development aspects.

In the case of local councils, the Company fosters close-knit ties with communities to inform on the need for facilities, as well as to promote dialogue that facilitates the carrying out of projects in a sustainable manner and with complete social acceptance.

INVESTMENT IN THE COMMUNITY

In 2017, the Company contributed 6.5 million euros 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

↓
of which 59% is aligned with business activities

Amicable agreements were reached with 94% of land owners affected by projects whose permitting process was completed in 2017.

Social initiatives - scope of action %



Economic and social contribution of investment projects

The investment effort made by Red Eléctrica generates a beneficial impact for society in that the investment made has a boosting effect on the country's economic activity, as the stimulation of production generates increased wealth (measured through GDP). As a consequence, employment is increased, and therefore public administrations have access to more income that can be dedicated to improvements in the general well-being of society.



310 million euros, corresponds to direct investment in Spain whose impacts, after applying the methodology adopted, are outlined below.

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.

three major impacts: direct, indirect and induced.

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 import of the goods necessary to carry out the activity. The remaining,

During 2017, Red Eléctrica adopted a methodology based on the implicit activity multipliers obtained in 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

Total impact of the investment in the transmission grid

	Direct	Indirect	Induced	Totals
Production (M€)	310	300	30	640
Income - GDP (M€)	121	126	10	257
Employment (n° of jobs)	2,100	2,276	307	4,683
Tax revenue (M€)	48	48	4	100

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.

Continuing the good practice initiated in 2014, and with the aim of voluntarily offering tax

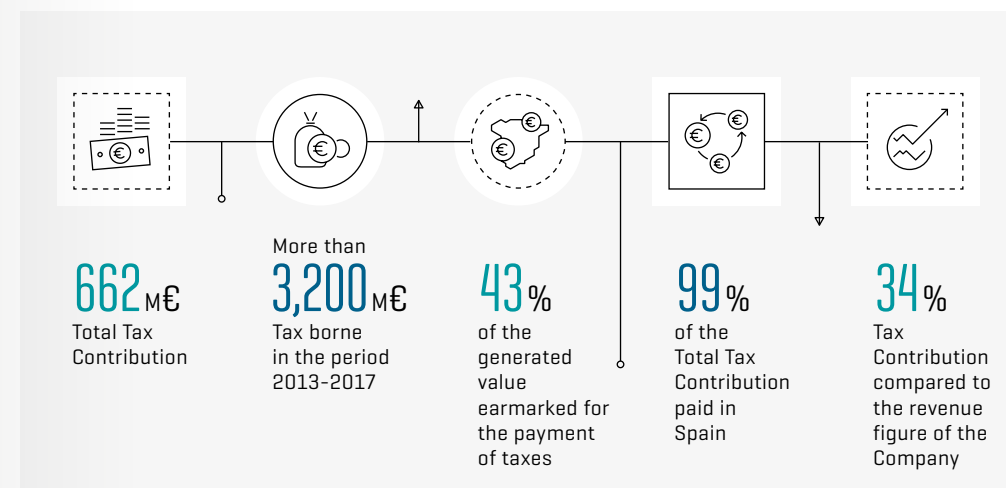
ANNUAL TAX TRANSPARENCY REPORT
 Within the framework of the Code of Good Tax Practices, the Red Eléctrica Group has voluntarily submitted the Annual Tax Transparency Report 2016 to the Spanish Tax Authority.

information to different stakeholders, with greater transparency, the Company publishes its Total Tax Contribution, in order to highlight the relevant economic and social function derived from the Group's tax payments

Total Tax Contribution 2017

	Spain	Peru	Chile	Others (UE)	Total
Tax borne	238	2	2	-	242
Tax collected	414	5	1	-	420
Total tax contribution	652	7	3	-	662

KEY DATA IN 2017



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RED ELÉCTRICA
Paseo del Conde
de los Gaitanes, 177
28109 Alcobendas
[Madrid]
Tel. +34 91 650 85 00
www.ree.es

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Communication
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Department of
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**Graphic design
and layout**

dis_ñ
estudio@dis-n.es

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version shall prevail.



Red Eléctrica works
on selecting the most
legible typographical font
for their publications.
The typographical fonts
Geogrotesque and Klavika
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and graphics in this report.



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CORPORACIÓN

Paseo del Conde
de los Gaitanes, 177
28109 Alcobendas
[Madrid]

www.ree.es

