

Comprehensive Risk Management Policy



Purpose

To establish the principles to ensure that the risks that may affect the strategies and objectives of Redeia are identified, analysed, evaluated, managed and controlled in a systematic way, with uniform criteria and within the risk levels set.

Supporting and complying with the principles contained in this Policy contribute to meeting the corporate goal, as well as to achieving the strategic objectives thereof, consistent with the values, principles and conduct guidelines set forth in the Code of Ethics and Conduct of Redeia.

Scope of application

This Policy is applicable to all companies in which Redeia has a controlling interest. It is the responsibility of all the members of Redeia to comply with this Policy in the exercise of their roles and responsibilities, and in all professional fields in which they represent the organisation.

In those investee companies in which Redeia does not have effective control, principles consistent with those set forth in this Policy will be implemented.

Principles

- To ensure that the risks that may affect the strategies and objectives of Redeia are identified, analysed, evaluated, managed, and controlled.
- To guarantee that actions are carried out to mitigate risks whose valuation exceeds the levels considered acceptable, taking into account the capacity of Redeia to act on them, until they are brought to an acceptable level, as far as possible. Likewise, risks of an acceptable level must receive the necessary actions to remain at that level.
- To ensure that risk management is proactive, incorporating controls to help mitigate them in the design of processes, implementing contingency plans and establishing coverage for such risks whenever possible.
- In general, risk management must be carried out coherently, considering the importance of the risk and the cost and the means necessary to reduce it. Nonetheless, for activities carried out as an operator of essential services, the impact that risks may have on them must also be considered.
- To promote a risk management culture in the companies of Redeia that facilitates the integration of risk analysis in process management and decision-making.
- To ensure that the bodies in charge of risk control (Executive Committee, Audit Committee and Board of Directors) are adequately informed of their situation.
- To create trust in stakeholders by transparently reporting on the risks of Redeia and the actions developed to manage and control them.

Criteria on acceptable risk level

● Acceptable risk level for individual risks

As a general criterion for risk management, it is considered that all those risks that threaten the achievement of the strategies and objectives of Redeia must reach a low probability/impact value, in accordance with the established probability and impact levels. Those risks that do not have this value must be subject to actions to achieve said value, considering whether the risk is manageable and if the cost of the mitigation measures is justified by the effect that the materialisation of the risk may have on Redeia.

● Overall acceptable risk level

Also, as a general criterion for risk management, the aggregate global risk level of Redeia, determined as a result of statistically adding the individual risks, should not exceed the global level established for each of the impact categories contemplated in the Comprehensive Risk Management Policy: electricity supply (or the equivalent category depending on the activity carried out by each company in Redeia), reputation, strategic plan and economic loss.

Types of risks and action guidelines for risk management

The types of risks faced by Redeia in achieving its strategies and objectives can be classified as follows:

Strategic Risks

- Regulatory framework. Risks related to the regulations affecting Redeia, including tax risks (produced by the application of the tax regulation, the complexity of interpretation or modifications in the aforementioned regulations, and the possible reputational impacts of the management of tax matters) and those of transition associated with climate change.
- Business. Risks associated with impacts related to the business situation, customers, the country or geographic area in which Redeia operates, the loss of technological positioning in the sectors in which it operates or strategic investment decisions.
- Sustainability and good governance. Risks, mainly reputational, associated with not adopting the best practices in sustainability, good governance, and transparency, which lead to a deterioration in the perception of the company by stakeholders.

Operational Risks

- Planned/ongoing assets. Risks related to a breach of the investment plan of Redeia, including an unfavorable variation in the cost and term of the associated projects.
- In service assets. Risks mainly associated with breakdowns and incidents that may affect the correct functioning of the assets of Redeia. This category includes the negative impacts that the own activity of Redeia could have on the environment, as well as the main physical risks associated with climate change.
- Systems. Risks associated with failures in computer or industrial systems, as well as cyberattacks that affect the availability of the information systems of Redeia.
- People and organisation. Risks related to the management of people and their health and safety at work.
- Compliance. Risks related to non-compliance with legislation, internal regulations and the commitments assumed by Redeia, including the risks of corruption and fraud.

Financial Risks

- Market. Risks associated with variations in financial market conditions in relation to prices, interest and exchange rates, credit conditions, or other variables that could affect financial costs.
- Solvency. Risks associated with the inability of Redeia to meet its payment obligations.
- Counterparty. Risks that the companies or entities with which Redeia has commercial, financial, or other relationships, could not meet their commitments.
- Insurance. Risks associated with insufficient coverage in the event of a claim, as well as an increase in the costs of contracted insurance.

The following specific guidelines are established for the different types of risks:

Strategic Risks

- Given the nature of regulatory risks, their management must be fundamentally anticipatory and proactive, while also focusing on collaboration with regulators and taking into account the medium and long term and possible scenarios in an increasingly globalised environment.

In particular, for tax risks:

- The principles and guidelines that frame action in tax matters are those contained in the Tax Strategy of Redeia.
- A proactive and responsible vision will be developed and maintained in the management of tax risks in all the companies that make up Redeia.

- The activity in tax matters will have the analysis of specific risks and the necessary controls to mitigate, manage and control said risks. In relation to the analysis of the tax risks of investments or operations that have a strategic nature or special tax risk due to their high value or special characteristics, it will be reported for approval by the Board of Directors.
- Relations with the Tax Administrations will be fostered in order to reduce tax risks and prevent behaviours that may generate them.
- Development of due diligence processes for the evaluation of corporate operations that highlight their contingencies and facilitate decision-making by the governing bodies.
- Evaluation of the risks that may significantly affect the evolution of the international and telecommunications business: regulatory, economic cycle, competition, evolution of the sector, evolution of the country, etc. The management of these risks will correspond to each of the companies that make up Redeia, which will have the necessary help from the corporate units that can support their management.
- Investment in innovation and technological development to promote the energy transition and connectivity through the technological platform of Redeia.
- Adoption of the best practices in sustainability, good governance, and transparency, to ensure the protection of the highest standards of corporate reputation and other aspects necessary to generate trust in Redeia.

Operational Risks

- Design of processes carried out with criteria of effectiveness and efficiency, contemplating controls that mitigate risks. The processes must be structured through management systems with international reference standards (good practices) and with regular verification and improvement.
- Proactive management of the risks associated with investment projects, including delays in processing and social and institutional opposition, as well as their financial monitoring and control.
- Maintaining the reliability levels of electrical and telecommunications infrastructure facilities, requiring, where appropriate, adaptation and improvement actions.
- Use of coverage through insurance policies for those claims that may materialise.
- Proactive and anticipatory management of physical security and cybersecurity regarding activities of general interest carried out by Redeia, and of the prevention of the environment and the safety of people.
- Strict compliance and observance of the applicable legislation and of the commitments assumed voluntarily by Redeia to maintain the highest reputation in terms of business conduct.
- Implementation of a system for the prevention, supervision, and effective control of criminal risks, including those related to corruption.

Financial Risks

- Financial risk management must be aimed at avoiding unwanted variations in the fundamental value of Redeia, instead of having speculative actions as its object.
- The financial structure must be sufficiently diversified in terms of financing and maturities, so as to minimise exposure to liquidity risk.
- Coverage of the interest rate risk will reduce the impact of this risk on Redeia.
- Coverage of the exchange rate will consider the activities and supplies related to various currencies.
- The impact of significant fluctuations in the prices of raw materials and services will be limited through the mechanisms considered most suitable for each case and according to the impact on the total cost of the project.
- The management of counterparty risks will be carried out mainly by incorporating control elements that reduce or limit the risk:
 - For financial counterparties: approval of counterparty lists, periodic review of these lists, limits for contracting operations based on the term, amount, counterparty, and any other instrument that is considered adequate to eliminate or mitigate counterparty risk.

- For commercial counterparties: definition of processes that, over time, guarantee that customers and suppliers meet the requirements demanded by Redeia, and avoid dependence on a single supplier, taking actions that facilitate competition.

Information and control systems in risk management

Comprehensive risk management will be aligned with international reference standards and equipped with adequate information and control systems to ensure compliance with this policy and provide a global and homogeneous view of the risk level of Redeia. Its operation will be determined in the corresponding general procedure.

This **Comprehensive Risk Management Policy** was approved in its 3rd edition by the Board of Directors on **27th July, 2021**.

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