

REPORT ON INDEPENDENT LIMITED ASSURANCE OF GREENHOUSE GAS EMISSIONS INVENTORY 2017 OF RED ELÉCTRICA DE ESPAÑA S.A.U.

To the Management of Red Eléctrica de España, S.A.U.

Scope

We have undertaken a limited assurance engagement on the Green Gas Emissions Inventory (hereinafter referred to as the GHG Inventory) of Red Eléctrica de España, S.A.U. (hereinafter referred to as REE) for the financial year ending 31st December 2017, included in the Appendix of this Report.

This assignment has been made by a multidisciplinary team that includes specialists in sustainability, climate change and assurance.

Management's responsibility

REE's management is responsible for preparation and update of the 2017 GHG Inventory in accordance with their internal procedure, "Methodology for de Calculation of the Greenhouse Gas Emissions (GHG) Inventory of Red Eléctrica España S.A.U." available on the following website link <http://www.ree.es/en/sustainability>. This responsibility includes the design, implementation and maintenance of internal control relevant to ensure that the GHG Inventory is free from material misstatement, whether due to fraud or error.

The quantification of GHG emissions is subject to more inherent uncertainty than financial information, because of incomplete scientific, according to its nature and methods used to determine, calculate or estimate emissions.

Likewise, it is also responsible for defining, implementing, adapting and maintaining the necessary internal management and control systems so that the preparation and presentation of the information is free of material impropriety due to fraud or error.

Our independence and quality control

We have complied with the requirements of independence and the other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA, for its acronym in English).

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and maintains, as a result, a global quality control system that includes documented policies and procedures related to compliance with ethical requirements, professional standards and legal and regulatory provisions.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the GHG Inventory based on the procedures we have performed and de evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements 3410 (ISAE 1410), "Assurance Engagement on Greenhouse Gas Statements" issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). This standard requires that we plan and perform this engagement to obtain a limited assurance that REE's 2017 GHG Inventory is free from material misstatement.

A limited assurance engagement undertaken in accordance with ISAE 3410 involves assessing the suitability in the circumstances of REE's use of applicable criteria as the basis for the preparation of the GHG statement, assessing the risk of material misstatement whether due to fraud or error, responding to the assessed risk as necessary in the circumstances, and evaluating the overall presentation of the GHG statement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. Therefore, the degree of assurance is also less extensive. This report in no case should be considered as an audit report.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

- Through inquiries and meetings with personnel of REE's various departments who have been involved in the preparation of the GHG Inventory, obtained an understanding of REE's control environment and information systems relevant to emissions quantification and reporting, but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness.
- Evaluated whether REE's methods for developing estimates are appropriate and had been consistently applied. However, our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate REE's estimates.

- Verification, through random sampling tests, internal control tests and the development of substantive tests of the information (activity data, calculations and information generated) used to determine REE´s 2017 GHG Inventory with the internal procedure. We have also verified the correct compilation of information based on the data provided by REE´s sources of information.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that REE´s GHG Inventory for the financial year ending 31st December 2016 contains any material misstatement or is not prepared, in all material respects, in accordance with the "Methodology for the Calculation of the Greenhouse Gas Emissions (GHG) Inventory of Red Eléctrica de España S.A.U."

Use and distribution

Our report is only issued to the Management of Red Eléctrica de España S.A.U. in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than REE´s Management.

ERNST & YOUNG, S.L.

(Free translation from the Original Report on Independent Review in Spanish dated 19th March 2018. In case of any discrepancy, the Spanish version always prevails.)

APPENDIX

GREENHOUSE GAS (GHG) INVENTORY OF RED ELÉCTRICA ESPAÑA S.A.U.

GHG Inventory 2017	tCO ₂ eq
Scope 1	28,764.78
SF ₆	26,223.98
Air conditioning	708.96
Fleet vehicles	1,556.47
Diesel generating sets	275.38
Scope 2	956,967.29
Electricity consumption	946.50
Transmission grid losses	956,020.79
Scope 3	415,748.45
Purchase of goods and services	295,786.84
Capital goods	111,618.72
Energy production (not included in scope 1 and 2)	516.71
Waste	134.09
Transport and distribution	2,287.51
Business travel	1,487.00
Commuting	3,917.57
Leased assets	0

Organisational boundaries

The calculation of Company's emissions is performed under operational control criteria. The inventory only applies to the activities that take place in Spain.

Operational scope:

Emissions associated to Company's activities and facilities are quantified, taking into consideration the following scopes:

Scope 1: Direct GHG emissions (Greenhouse gases)

Emissions resulting from the Company's controlled or owned sources:

- Fugitive Emissions: SF6 gas leaks in electricity substations and refrigerant gases leaks from air conditioning systems.
- Mobile Combustion: emissions derived from fuel consumption of the fleet.
- Stationary combustion: derived from the combustion of fuels used in diesel generating sets. (No other stationary combustion source exists in the Company).

Scope 2: GHG indirect emissions from electricity consumption

- Electricity consumption
- Electricity losses in the transmission grid.

Scope 3: Other indirect GHG emissions

- Supply chain: Purchase of goods and services.
- Capital goods.
- Life cycle of fuel and energy consumed: emissions due to energy production (not included in scope 1 and 2).
- Upstream transportation and distribution.
- Waste management.
- Business travel by plane, train and car (taxi, private and rented vehicles).
- Employees commuting to the work place.
- Leased assets (downstream).