

Second-Party Opinion

Red Eléctrica

Green Finance Framework

Evaluation Summary

Sustainalytics is of the opinion that the Red Eléctrica Green Finance Framework is credible and impactful and aligns with the four core components of the ICMA Green Bond Principles 2018 and the LMA Green Loan Principles 2018. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the integration of renewable energy into the electrical grid as well as the provision of electricity to rail networks will lead to positive environmental impacts and advance the UN Sustainable Development Goals, in particular goals 7 and 11.



PROJECT EVALUATION / SELECTION Red Eléctrica has defined a two-stage project selection process, with approval from its Sustainability Steering Committee, which includes representatives from Corporate Finance, Sustainability, Energy Networks, System Operation, and Management Control. This Committee will also monitor the green portfolio on an ongoing basis. This is in line with market practice.



MANAGEMENT OF PROCEEDS Red Eléctrica will manage the proceeds of green transactions in a portfolio approach, aiming to ensure that the green portfolio matches or exceeds the balance of outstanding instruments. Unallocated proceeds will be held in line with the Company's liquidity policy. This is in line with market practice.



REPORTING Red Eléctrica intends to report on the allocation of proceeds at the category level on an annual basis, including the total amount allocated to the Eligible Green Projects Portfolio, the amount and/or percentage of new and existing projects, year of investment, and the geographical distribution of the assets. In addition, impact reporting including relevant quantitative indicators, case studies, or reports will be provided where feasible. This is in line with market practice.

Evaluation date	September 24, 2019
Issuer Location	Madrid, Spain

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Introduction

Red Eléctrica de España, S.A. (“REE” or the “Company”) is the owner and transmission system operator of the electrical grid in Spain. Founded in 1985, REE operates 44,000 km of transmission lines and in 2018 managed over 253 TWh of energy.

REE has developed the Red Eléctrica Green Finance Framework (the “Framework”) under which it intends to issue Green Finance Instruments and use the proceeds to finance or refinance, in whole or in part, existing and future investments that support the production and integration of renewable energy in the grid and improve the efficiency of the rail system. The Framework defines eligibility criteria in two areas:

1. Renewable Energy
 - a. Interconnection of renewable energy generation
 - b. Investments in the energy grid to support the integration of renewables
2. Clean Transportation

REE engaged Sustainalytics to review the Red Eléctrica Green Finance Framework, published September 2019, and provide a second-party opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2019 (GBP) and the Green Loan Principles 2018 (GLP).¹ This Framework has been published in a separate document.²

As part of this engagement, Sustainalytics held conversations with various members of REE’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Company’s Green Finance Instruments. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Red Eléctrica Green Finance Framework and should be read in conjunction with that Framework.

¹ The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

² The Red Eléctrica Green Finance Framework will be made available on REE’s website at: <https://www.ree.es/en/shareholders-and-investors>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Red Eléctrica Green Finance Framework

Summary

Sustainalytics is of the opinion that the Red Eléctrica Green Finance Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018 and the Green Loan Principles 2018. Sustainalytics highlights the following elements of REE's Framework:

- Use of Proceeds:
 - The use of proceeds categories – renewable energy and clean transportation – are recognized as impactful by the GBP.
 - Within the category of renewable energy, REE will include capital investments in projects directly related at increasing the production of renewable energy, including:
 - Projects aimed to directly support the connection of renewable energy generation capacity to the grid,³ such as specific transmission lines or interconnections. Sustainalytics views positively these investments.
 - Projects which reduce congestion in the network to address specific technical limitations that hinder the expansion of renewable energy or require that fossil fuel generation be used to support grid stability. These projects are proposed by the Grid Planning team, which helps fulfill REE's role as a System Operator, and can be linked to specific quantitative outcomes which will be tracked and reported.⁴ Based on the defined process for identifying these projects, as well as their demonstrable environmental benefit, Sustainalytics views positively these investments.⁵
 - Also within the area of renewable energy, REE has defined as eligible projects aimed to improve the grid's ability to integrate renewable energy, such as modernization, upgrades, or congestion relief. These projects will be considered eligible at a value prorated to the installed renewable energy capacity ratio⁶ in the year of investment. Sustainalytics considers that these grid-wide investments are a necessary component to allow high penetration of renewable energy and is of the opinion that the prorating approach described in the Framework is a robust mechanism to determine the value of the green asset (refer to Section 2 for further discussion of key risk mitigation considerations and Section 3 for further discussion of the impact of grid investments).
 - REE's clean transportation investments are specifically linked to its provision of electrical connections for high speed rail lines. Sustainalytics views positively projects which support rail electrification as well as the growth of rail transport to encourage modal shift.
- Project Evaluation and Selection:
 - REE has defined an internal team, consisting of representatives from relevant areas such as the sustainability department and finance direction, that will select potentially eligible projects. This list is then submitted to the Company's Sustainability Steering Committee, including representatives from Corporate Finance, Sustainability, Energy Networks, System Operation, and Management Control, for approval.

³ REE defines renewable energy as including hydro, wind, solar, biogas, biomass, geothermal, and marine hydraulic; wind and existing hydro projects make up the largest amounts, both by capacity and by annual generation. Sustainalytics notes that best practice in the green bond market is to limit investments in geothermal and bioenergy facilities to projects with an emissions intensity of less than 100 gCO₂e/kWh, and encourages REE to prioritize investments that support facilities that meet these thresholds, while also noting that as a grid operator REE is not directly involved in the development or operation of renewable energy assets.

⁴ REE has currently included two such projects in its eligible portfolio and has provided detailed descriptions as well as a quantification of environmental benefits of these projects to Sustainalytics for review.

⁵ The process of resolving congestion issues on the Spanish grid is governed by Operational Procedure PO 3.2, under which the Market Department and/or the Control Center Department of the Transmission System Operator carry out studies in order to resolve technical constraints that have been noted in the real-time or day-ahead markets. Final approval for the construction of proposed projects is granted by the Spanish Government. See: <https://www.esios.ree.es/es/documentacion/p-o-3-2-resolucion-de-restricciones-tecnicas> (in Spanish).

⁶ The renewable energy capacity ratio is defined as the amount of installed capacity of renewable energy facilities compared to the overall generating capacity on REE's network. Sustainalytics views this ratio as a relevant metric in the context of REE's green bond, as a grid operator must be able to ensure that renewable electricity from variable resources such as wind and solar can be integrated to the grid even when these facilities are operating at 100%.

- The Sustainability Steering Committee will also be responsible with ongoing monitoring of the green portfolio to exclude projects which no longer comply and remove the oldest projects on an ongoing basis as finance instruments mature.
- Based on the two-step approval process, the commitment to ongoing monitoring, and the intention to update the portfolio to ensure that the oldest projects are removed, Sustainalytics considers this to be in line with market practice.
- Management of Proceeds:
 - REE will manage the proceeds of its green finance transactions on a portfolio basis and will strive to maintain a balance in its green portfolio which matches or exceeds the net proceeds of outstanding instruments.
 - Pending full allocation, proceeds may be held within the Company’s liquidity portfolio, in cash, cash equivalents, money markets funds, or similar investments.
 - Based on the commitment to maintaining a green portfolio, and the disclosure of temporary instruments for the proceeds, Sustainalytics considers this to be in line with market practice.
- Reporting:
 - REE will provide allocation and, where feasible, impact reporting at the category level, annually until full allocation of its green finance instruments, on its website. Allocation reporting will include amounts allocated, share of finance versus refinancing, the year of investment, the balance of unallocated proceeds, and the geographical distribution of the assets at the country level. Impact reporting may include relevant quantitative performance indicators or narrative reports and case studies, such as increase in renewable energy capacity, estimated energy savings, and estimated avoided emissions, as well as transformer capacity assigned to train connections.
 - Based on the commitment to annual reporting, and the intention to disclose impacts reporting where feasible, Sustainalytics considers this to be in line with market practice, and views positively that REE has stated in intention to receive annual limited assurance from an independent auditor until proceeds are fully allocated.

Alignment with Green Bond Principles 2018 and Green Loan Principles 2018

Sustainalytics has determined that REE’s Framework aligns to the four core components of the Green Bond Principles 2018 and the Green Loan Principles. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

Section 2: Sustainability Performance of the Issuer

Contribution of framework to issuer’s sustainability strategy

REE’ sustainability approach is underpinned by four sustainability priorities: decarbonisation of the economy, anticipating change and taking action, contribution to the development of society, and responsible value chain.⁷ The Company’s 2017-2019 Sustainability Plan, part of its Responsible business model, defines actions that the company will take to advance each of these priorities.⁸ As part of its annual sustainability reporting, REE monitors and reports progress on achieving the objectives of its sustainability programme, and in 2018 stated a compliance rate of 86% based on a Sustainability Indicator Scorecard, which accounts for material issues across the four sustainability pillars.⁹ This sustainability performance has been recognized with certifications, listings, and awards from various reputable third parties, including inclusion on the CDP’s “Climate A List”, a “Good Practice of the Year” award from the Renewables Grid Initiative, and receiving the top gender equality ranking for a Spanish company from EQUILEAP.¹⁰

The use of proceeds categories outlined in the Framework are aligned with this overall sustainability strategy and performance. Notably, by supporting the interconnection and integration of renewables, REE is advancing

⁷ REE, “Sustainability priorities”, <https://www.ree.es/en/sustainability/commitment-to-sustainability/sustainability-priorities>.

⁸ REE, “Responsible business model”, <https://www.ree.es/en/sustainability/commitment-to-sustainability/responsible-business-model/2017-2019-sustainability-plan>.

⁹ REE, “2018 Sustainability Report”, https://www.ree.es/sites/default/files/downloadable/ree_sustainability_report_2018.pdf

¹⁰ REE, “Sustainability leadership”, <https://www.ree.es/en/sustainability/commitment-to-sustainability/leadership-in-sustainability>

the decarbonisation of the economy, as well as helping prepare its business for changes in future energy systems. Additionally, the investments in clean transportation will support emissions savings and decarbonisation beyond the energy sector, while also having impacts across the Company's value chain.

Based on the clear sustainability commitments and achievements, and their alignment with the objectives of the Framework, Sustainalytics views positively REE's sustainability performance, and considers the Company well-placed to issue Green Finance Instruments.

Well positioned to address common environmental and social risks associated with the projects

Sustainalytics recognizes that the projects financed by the Green Finance Instruments will provide environmental benefits overall. However, like all projects, investments in electrical transmission in support of renewable energy and clean transportation may be associated with environmental and social risks. These may include biodiversity impacts from large infrastructure such as transmission lines, worker health and safety and construction projects, supply chain impacts from materials sourcing, adverse impacts on vulnerable communities in areas in which work is undertaken, and the risk that investments in the transmission grid may indirectly support fossil fuel energy.

Red Eléctrica Group has numerous internal policies, procedures, and commitments in place that will help mitigate the direct social and environmental risks potentially associated with green bond projects. These include an Environmental policy,¹¹ a Comprehensive Risk Management policy,¹² a Transmission Policy,¹³ a Code of Ethics,¹⁴ a Supplier Code of Conduct,¹⁵ a Climate Change Commitment,¹⁶ and a Biodiversity Commitment.¹⁷ Sustainalytics has reviewed and assessed these documents and considers them to be robust, and applicable to the mitigation of relevant risks associated with the construction and operation of the physical assets financed by the green bond(s). Furthermore, that REE is a signatory to the UN Global Compact, a member of the Carbon Disclosure Project, and member of the Spanish Green Growth Group further support that risks are being properly considered.¹⁸ Finally, it should be noted that the majority of Red Eléctrica's investments are in Spain and Chile, which are considered to be designated countries by the Equator Principles indicating that robust social and environmental governance systems are in place.¹⁹

It is acknowledged that Red Eléctrica's transmission network will transmit energy generated from the combustion of fossil fuels, and that therefore efficiency improvements to the network are also efficiency improvements to fossil fuel power. In Sustainalytics view, this fact does not detract from the environmental benefits of the green investments, based on:

- The pro-rating of grid investment eligibility based on renewable capacity at the time of expenditure. In 2018, 46.7% of installed capacity was renewable, of which 48% was wind and 35% hydro; since 2006 this figure has increased from 35%.²⁰ While the share of energy generated from renewables (40.1% on the mainland, 38.5% nationally) has been approximately stable over the past five years, it has grown considerably over a slightly longer period, as renewable energy made up only 26% of annual generation in 2009.^{21 22}
- As a network operator, REE is responsible for the efficient operation of its network and the consistent supply of electricity to consumers;²³ considering its regulatory responsibilities and the current nature of the energy sector, it would not be feasible to exclude fossil fuel energy at this time.

Overall, considering the internal policies, external commitments, and contextual factors, Sustainalytics is of the opinion that REE is well-positioned to mitigate common environmental and social risks associated with the types of projects that will be financed by the Green Finance Instrument(s).

¹¹ REE, "Environmental Policy", https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_ambiental_02102014_ing.pdf

¹² REE, "Comprehensive Risk Management Policy", https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_gestion_integral_de_riesgos_2016_ing.pdf

¹³ REE, "Transmission Policy", https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_transporte_02102014_ing.pdf

¹⁴ REE, "Ethics Code", https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/ethics_code_2013.pdf

¹⁵ REE, "Supplier Code of Conduct", https://www.ree.es/sites/default/files/code_of_conduct_for_suppliers_nov2015.pdf

¹⁶ REE, "Climate Change Commitment", https://www.ree.es/sites/default/files/downloadable/climate_change_commitment_2017.pdf

¹⁷ REE, "Biodiversity Commitment", https://www.ree.es/sites/default/files/biodiversity_commitment_ree_march2017.pdf

¹⁸ REE, "Leadership in Sustainability", <https://www.ree.es/en/sustainability/commitment-to-sustainability/leadership-in-sustainability>

¹⁹ Equator Principles, "Designated Countries", <https://equator-principles.com/designated-countries/>

²⁰ Data provided to Sustainalytics by REE

²¹ REE, "2018 Sustainability Report", https://www.ree.es/sites/default/files/downloadable/ree_sustainability_report_2018.pdf

²² REE, "2009 Corporate Responsibility Report", https://www.ree.es/sites/default/files/downloadable/corporate_responsibility_report_2009_v4.pdf

²³ REE, "Electricity business in Spain", <https://www.ree.es/en/about-us/business-activities/electricity-business-in-Spain>

Section 3: Impact of Use of Proceeds

The two use of proceeds categories are recognized as impactful by the GBP. Sustainalytics has focused below on how the impact is specifically relevant in the local context.

Importance of the integration of renewable energy

Within the category of renewable energy, REE has considered two classes of projects: those that directly connect or are fully related to increasing the capacity of renewable energy supplied to the grid and those that upgrade the grid more broadly leading to improved efficiency and an increased ability to integrate renewable energy.

The benefits of the direct interconnection of renewables is clear; by supporting these connections REE is allowing more renewable energy projects to provide low-carbon energy to the electrical grid; cost-efficient connections are important to the development of renewable energy projects.²⁴ Equally important is the resolution of technical constraints that impede a higher penetration of renewables or require that fossil fuel generation be operated in certain regions to avoid overload or instability of the electrical network; addressing these issues will enable a growth in renewable energy generation capacity at the expense of fossil fuel based alternatives, in line with the targets for and trajectory of Spain's energy supply.

The positive environmental impacts of grid upgrades are more indirect, but also significant as part of the transition to a low-carbon economy. In order to increase the proportion of renewable energy, technology upgrades and modernization must occur. As stated in EC Directive 2009/28/EC, "There is a need to support the integration of energy from renewable sources into the transmission and distribution grid and the use of energy storage systems for integrated intermittent production of energy from renewable sources."²⁵ These investments are required as many renewable energy sources have different geographical spreads and generation profiles than conventional fossil-fuel power plants, specifically considering that weather variability may result in intermittent output.^{26,27} Investments in new substations, grid interconnections, and communications technology can make the grid "smarter" and less congested, better able to cope with higher proportions of variable renewables, and less dependent on carbon-intensive power plants. In other words, REE's investments will provide the flexibility to facilitate a high capacity of renewables being included in the grid, without the risk of energy shortages resulting from unpredictable weather conditions, for example. REE has identified the integration of renewables as one of its major challenges, and has committed to developing solutions to alleviate these constraints.²⁸ In 2018, 38.5% of Spanish electricity generation, including 40.1% on the mainland, was from renewables source, primarily wind; Sustainalytics considers that the projects funded by the green bond(s) will allow this number to increase in the future.

The impact of high-speed rail in Spain

Rail-based transportation is one of the most environmentally friendly methods to move passengers and freight; compared to transport by road, rail is 11 times more energy efficient on a per-ton basis for freight and three times more efficient on a per-person basis for passengers.²⁹ Furthermore, REE's investments are focused in the electrical infrastructure needed for high-speed electric trains, which produce 20-35% lower carbon emissions than the most efficient diesel trains;³⁰ a savings that is projected to increase over time as the grid mix of electricity becomes less fossil-fuel dependent.³¹ These investments are of particular relevance due to the need for rapid decarbonisation of the transportation sector in Europe in order to achieve climate goals, as transportation is the EU's only major economic sector in which emissions are substantially higher

²⁴ Hu, J. et al. (2018) "Barriers to investment in utility-scale variable renewable electricity (VRE) generation projects" accessed (27.2.19) at: <https://dspace.library.uu.nl/bitstream/handle/1874/362463/Barriers.pdf?sequence=1&isAllowed=y>

²⁵ Directive 2009/28/EC of the European Parliament and of the Council, accessed (27.2.19) at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0028&from=EN>

²⁶ Union of Concerned Scientists (2015) "How Energy Storage Works" accessed (27.2.19) at: <https://www.ucsusa.org/clean-energy/how-energy-storage-works>

²⁷ Fares, Robert (2015) "Renewable Energy Intermittency Explained: Challenges, Solutions, and Opportunities" accessed (27.2.19) at: <https://blogs.scientificamerican.com/plugged-in/renewable-energy-intermittency-explained-challenges-solutions-and-opportunities/>

²⁸ REE, "Integration of renewables", <https://www.ree.es/en/red21/integration-of-renewables>

²⁹ Hoffrichter, A, "Why Trains Are So Much Greener Than Cars or Airplanes", <https://www.citylab.com/transportation/2019/04/rail-transportation-carbon-emissions-green-new-deal/586240/>.

³⁰ Hickman, L, "How green are electric trains?", <https://www.theguardian.com/environment/blog/2012/jul/16/electric-trains-diesel-green-carbon>.

³¹ International Energy Agency, "The Future of Rail", <https://www.iea.org/futureofrail/>.

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than they were in 1990,³² while the Region's 2030 climate & energy framework calls for a 20% reduction in emissions by 2030 compared to a 2008 baseline, as well as a 60% reduction from 1990 levels by 2050.³³ REE's investment priorities are of particular relevance in the Spanish context, which is considered a leader in high-speed rail. The country currently has 3,152 km of electrified high-speed rail lines, with further infrastructure under construction and in development. The state-owned rail infrastructure company Adif has a stated goal of bringing high-speed rail to within 30km of 90% of the country's population.³⁴

Considering the environmental benefits of increased rail electrification, and the contribution of such infrastructure to nation-wide mobility goals, Sustainalytics views positively REE's clean transportation investment category.

Alignment with and contribution to the SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This green bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons

Conclusion

Red Eléctrica de España, S.A. has developed a Green Finance Framework, under which it intends to issue Green Finance Instruments, which may include bonds, loans, and others, and use the proceeds to fund investments in renewable energy and clean transportation. Specifically, REE may finance expenditures related to projects that directly connect renewable energy to the grid, projects that remove technical constraints to the use of renewable energy, investments in the overall grid which will support the integration of renewables, and electricity connections for high-speed trains. Sustainalytics highlights in particular that REE will prorate its investments in the overall grid based on the capacity of connected renewables in the year of investment.

The use of proceeds categories specified in the Framework are aligned with those of the Green Bond Principles 2018 as well as the Green Loan Principles 2018. REE has described a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the investments funded by the Green Bonds will contribute to the advancement of the UN Sustainable Development Goals, in particular Goals 7 and 11.

Based on the above, Sustainalytics is confident that Red Eléctrica is well-positioned to issue Green Finance Instruments, and that the Red Eléctrica Green Finance Framework is robust, transparent, and in alignment with the Green Bond Principles 2018 and the Green Loan Principles 2018.

³² European Commission, "Transport" https://ec.europa.eu/clima/policies/international/paris_protocol/transport_en.

³³ European Commission, "2030 climate & energy framework", https://ec.europa.eu/clima/policies/strategies/2030_en.

³⁴ "Adif, "High Speed Lines", http://www.adifaltavelocidad.es/es_ES/infraestructuras/lineas_de_alta_velocidad/lineas_de_alta_velocidad.shtml

Appendices

Appendix 1: Green Bond / Green Bond Programme - External Review Form Section 1. Basic Information

Issuer name:	Red Eléctrica de España S.A.
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	Red Eléctrica Green Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	September 24, 2019
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible categories for the use of proceeds are aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the integration of renewable energy into the electrical grid as well as the provision of electricity to rail networks will lead to positive environmental impacts and advance the UN Sustainable Development Goals, in particular goals 7 and 11.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other <i>(please specify)</i> : |

If applicable please specify the environmental taxonomy, if other than GBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

Red Eléctrica has defined a two-stage project selection process, with approval from its Sustainability Steering Committee, which includes representatives from Corporate Finance, Sustainability, Energy Networks, System Operation, and Management Control. This Committee will also monitor the green portfolio on an ongoing basis. This is in line with market practice.

Evaluation and selection

- | | |
|--|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Green Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (<i>please specify</i>): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Red Eléctrica will manage the proceeds of green transactions in a portfolio approach, aiming to ensure that the green portfolio matches or exceeds the balance of outstanding instruments. Unallocated proceeds will be held in line with the Company's liquidity policy. This is in line with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Green Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (<i>please specify</i>): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (if applicable):

Red Eléctrica intends to report on the allocation proceeds at the category level on an annual basis, including the total amount allocated to the Eligible Green Projects Portfolio, the amount and/or percentage of new and existing projects, year of investment, and the geographical distribution of the assets. In addition, impact reporting including relevant quantitative indicators, case studies, or reports will be provided where feasible. This is in line with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Information reported:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Green Bond financed share of total investment |
| <input checked="" type="checkbox"/> Other (<i>please specify</i>): <i>Share of financing/re-financing</i> | |

Frequency:

- | | |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Frequency:

- | | |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Information reported (expected or ex-post):

- | | |
|---|--|
| <input checked="" type="checkbox"/> GHG Emissions / Savings | <input checked="" type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Other ESG indicators (<i>please specify</i>): Renewable energy capacity, transformer capacity dedicated to rail system |

Means of Disclosure

- | | |
|--|---|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input type="checkbox"/> Other (<i>please specify</i>): |

- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

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- i. Second Party Opinion: An institution with environmental expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green Bond Scoring/Rating: An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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