

RED
ELÉCTRICA
DE ESPAÑA

Green Finance Framework

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1. Introduction

The world's first company devoted exclusively to electricity system operation and electricity transmission was incorporated on 29 January 1985 under the name of Red Eléctrica de España, S.A. In 2008, in order to reinforce transparency and clear division between different regulated activities in Spain as the electricity system's transmission and operation, Red Eléctrica turned into a holding company, being Red Eléctrica Corporación, S.A. the parent company of the Group.

The main activity of the Group is conducted in Spain, where Red Eléctrica de España SAU carries out its function of sole transmission and system operator (TSO). The Group also carries out electricity transmission activities outside Spain through Red Eléctrica Internacional S.A.U. and its investees, currently with a presence in Perú and Chile. Likewise, the Group provides telecommunications services to third parties in Spain through Red Eléctrica Infraestructuras de Telecomunicación S.A.U., primarily by leasing dark backbone fibre, and associated infrastructure both from electric power transmission infrastructure and railway networks, as in 2014 it was reached an agreement with the state-owned rail infrastructure company ADIF to transfer to the Red Eléctrica Group the right of use and management of the non-rail fiber optic.

In addition, the Group carries out activities through its subsidiaries aimed at financing its operations and covering risks by reinsuring its assets and activities. It also conducts construction of energy storage facilities in non-mainland and isolated systems through Red Eléctrica Infraestructuras en Canarias .

On 12 February 2019, Abertis Infraestructuras S.A. and Red Eléctrica Corporación entered into an agreement for the latter to purchase Abertis' 89,68% stake in Hispasat, S.A. the leading satellite infrastructure in Spain and Portugal by volume of business and the fourth operator in Latin America and the eight operator worldwide).

On June 2019, REC has incorporated Red Eléctrica de Telecomunicaciones, Innovación y Tecnología, S.A, to provide the Group with innovation and technological development services, to present the value of innovation by providing third parties with tech services and to contribute to the development of the environment through a start-up acceleration programme.

2. Red Eléctrica's approach to Sustainability

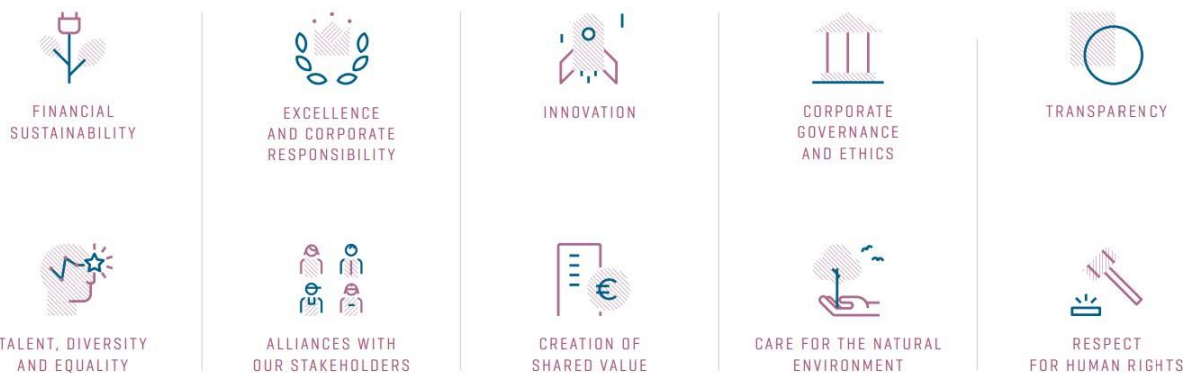
The Red Eléctrica Group has undertaken a commitment to sustainability which is strategic, cross-cutting and with a long-term vision. In 2017, the Board of Directors approved the 2030 Sustainability Commitment of the Red Eléctrica Group. Said commitment is set out on four priorities: anticipating change and taking action; decarbonisation of the economy; responsible value chain, and the contribution to social, economic and environmental development. With this commitment, the Company addresses its long-term sustainability through a business model capable of responding to the challenges of the future and following the principles set out in the Company's Corporate Responsibility Policy.

In 2018, as a consequence of the strategic nature that sustainability has for the Red Eléctrica Group, noteworthy was the recent creation of the Sustainability Committee within the Board of Directors.





The 2030 Sustainability Commitment of the Red Eléctrica Group is based on ten principles defined within the Corporate Responsibility Policy and is set out in four sustainability priorities identified as the key drivers

to respond to the challenges the Company faces and to bring to fruition the opportunities that exist, in order to occupy a position of reference within the global business context.

Sustainability is based on the following principles:



The sustainability priorities of the Red Eléctrica Group are the following:

| | | | |
|---|--|--|--|
|  <p>Anticipating change and taking action</p> <p>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 the regulatory environment arising from the new energy model.</p> |  <p>Decarbonisation of the economy</p> <p>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 through the development and operation of energy storage systems.</p> |  <p>Responsible value chain</p> <p>Extend our responsibility commitment to all links in the value chain, ranging from our own people to suppliers and customers, accomplishing this through the creation of alliances and by basing it on our governance and integrity model.</p> |  <p>Contribution to social, economic and environmental development</p> <p>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 a perceived mutual benefit.</p> |
|---|--|--|--|

The 2030 Sustainability Commitment of the Red Eléctrica Group is deployed through multi-year plans and projects which are programmed on an annual basis. The 2017-2019 Sustainability Plan consists of 18 basic courses of action that ensure the responsible management of the business, allow progress to be made regarding the sustainability priorities and make it possible to respond to the expectations of stakeholders.

Annually, the Red Eléctrica Group defines and sets up a programme which consists of the most significant sustainability projects carried out by the Group. The overall degree of fulfilment of the sustainability programme was 86% at the close of 2018. It should be noted that the fulfilment of the most significant

sustainability projects and the impact of the programme is defined as a managerial objective that has an effect on the remuneration of the entire workforce.

Leadership in sustainability

The Group's performance in terms of sustainability is subject to continuous scrutiny by specialised evaluation agencies. The Company's continued presence in prestigious global indexes and the recognition received in the field of sustainability showcase the Company's excellent level of engagement and its firm commitment to accountability and transparency.



3. The Green Finance Framework

In line with Red Eléctrica's objective of providing a sustainable and secure supply of electricity to society, Red Eléctrica has established this Green Finance Framework under which the Group intends to issue Green Finance Instruments (which may include, *inter alia*, bonds, loans, etc) to finance and / or refinance projects promoting environmental progress.

By issuing Green Finance Instruments, Red Eléctrica intends to align its funding strategy with its sustainability strategy and objectives. In fact, Red Eléctrica sees the commitment to decarbonisation of the economy as a sustainability priority. Also the Spanish Government, within its National Integrated Energy and Climate Plan (2021-2030)¹, defines a roadmap to achieve decarbonisation and to position Spain's leadership in clean energies and technologies. Within this strategic framework, Red Eléctrica will have to invest heavily in the network to increase the share of renewable energy in the system and contribute to the transformation of the Spanish economy.

In addition, Red Eléctrica aims to contribute to the development of the green bond market and to the growth of impact investing linked to the UN Sustainable Development Goals (UN SDGs), since Eligible Green Project Categories under this Green Finance Framework are in line with certain UN SDGs. Lastly, Green

¹ <https://www.idae.es/informacion-y-publicaciones/plan-nacional-integrado-de-energia-y-clima-pniec-2021-2030>

Finance Instruments will help to diversify Red Eléctrica's investor base and broaden dialogue to existing investors.

The ICMA Green Bond Principles² are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of green financing instruments. The Red Eléctrica Green Finance Framework follows the ICMA Green Bond Principles (GBP) 2018 edition as well as the LMA Green Loan Principles³ (GLP) 2018 edition, which provides guidelines in the form of four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

For each Green Finance Instrument issued, Red Eléctrica asserts that it will adopt (1) Use of Proceeds (2) Process for Project Evaluation and Selection (3) Management of Proceeds, (4) Reporting, as set out in this Framework. The Red Eléctrica Green Finance Framework also follows the recommendations of the Green Bond Principles regarding External Review. Future changes in the Green Bond Standards may be implemented in future versions of this Green Finance Framework. Any future updated version of this framework that may exist will either keep or improve the current levels of transparency and reporting disclosures, including the corresponding review by an external consultant).

Use of Proceeds




The net proceeds of Green Finance Instruments will be exclusively used to finance and/or refinance in whole or in part eligible projects ("Eligible Green Projects"), including related partnerships and joint ventures, in the eligible categories, together forming the "Eligible Green Project Portfolio".

The Red Eléctrica Group, aware that the role of companies is key to achieving the goals set out in the UN 2030 Agenda, wants to be an active agent in contributing to the achievement of the Sustainable Development Goals and to strengthen its commitment to this area. In this regard, the Company carried out a process for the identification and prioritisation of the most relevant SDGs for the Red Eléctrica Group in the countries and sectors of activity in which it carries out its activities, both for the direct operations of the Company and for the indirect ones associated with its value chain. As a result of this process, the most relevant SDGs have been classified into two degrees of relevance for Red Eléctrica (high or medium). In particular, Goal 7 and Goal 13 are SDGs of high relevance for the Group.

In the table below there is a summary of the eligibility criteria for the Green Project Portfolio as well as its contribution to the UN SDGs and alignment with the EU Taxonomy Environmental Objectives.

² <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

³ <https://www.lma.eu.com/news-publications/press-releases?id=146>

| ICMA GBP Category | Eligible Green Projects | Eligibility to Green Finance Instruments | Contribution to UN SDG ⁴ | Alignment with EU Taxonomy Environmental Objectives ⁵ |
|----------------------|--|---|---|---|
| Renewable Energy | <ul style="list-style-type: none"> • Projects aimed at directly increasing the production of renewable energies: <ul style="list-style-type: none"> - Capital Investments aimed at directly integrating renewable energy generation to the grid (including international interconnections, converters and connections, among islands and with mainland) - Capital Investments in decarbonisation⁶ projects enabling renewable energy integration (such as resolving congestions in a given portion of the grid) • Projects aimed at integration renewable energies: <ul style="list-style-type: none"> - Capital Investments aimed at integrating and enhancing the transmission capacity for renewable energy in the grid | <p>100%</p> <p>Apply renewable power generation capacity ratio⁷ in each respective investment year to the correspondent investment value</p> | <p>Target 7.2: By 2030, substantially increase the share of renewable energy in the global energy mix</p>  <p>Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries</p>  | <p>Environmental Objective 1: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (1.a): Generating, storing, distributing or using renewable energy in line with the Renewable Energy Directive, including through innovative technology with a potential for significant future savings or through necessary reinforcement of the grid</p> |
| Clean Transportation | <ul style="list-style-type: none"> • Projects aimed at improving the efficiency of the rail system: <ul style="list-style-type: none"> - Investments in high speed rail lines and electrical connections, which ensure energy efficiency improvements, carbon emission reduction, air quality improvements and model shift to rail for long distance transport | <p>100%</p> | <p>Target 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</p>  | <p>Environmental Objective 1: Climate Change Mitigation</p> <p>Substantial contribution to Climate Change Mitigation (1.c): Increasing clean or climate neutral mobility</p> |

⁴ In alignment with ICMA "Green and Social Bonds: A high-level mapping to the Sustainable Development Goals": <https://www.icmagroup.org/green-social-and-sustainability-bonds/mapping-to-the-sustainable-development-goals/>

⁵ In alignment with the EU Taxonomy Environmental Objectives as defined in Article 5, amendment 41 and Article 6: http://www.europarl.europa.eu/doceo/document/TA-8-2019-0325_EN.html

⁶ In line with EU key targets for 2030 At least 40% cut in green house gas emissions from 1990 levels; at least 32% share for renewable energy; at least 32,5% improvement in energy efficiency

⁷ The renewable power generation capacity ratio is defined as the renewables installed capacity / all sources electricity capacity in the Spanish transmission grid

Process for Project Evaluation and Selection

Projects financed and / or refinanced through Instruments issued under the Green Finance Framework are evaluated and selected based on compliance with the Eligibility Criteria described above, with Red Eléctrica's strategic sustainability objectives and in compliance with applicable national, European and international environmental and social standards and regulations, to ensure a stringent management of any potential negative environmental and social impacts. The list of selected eligible projects is set up by a core team, integrated by members of the Sustainability Department, Control and Analysis of Investments Department, Finance Direction, System Development Direction and Construction Direction. The list of projects is then submitted to the Sustainability Steering Committee for validation. The Sustainability Steering Committee comprises representatives of Corporate Finance, Sustainability, Energy Networks, System Operation, Management Control and other parties to be nominated as subject matter experts.

The Sustainability Steering Committee monitors the Eligible Green Project Portfolio and is also responsible for:

- Excluding projects that no longer comply with the Eligibility Criteria or have been disposed of, and replacing them on a best efforts basis
- As Green Finance Instruments mature, removing the oldest projects for an equivalent investment amount, to ensure that Green Finance Instruments continue to fund new projects

The Sustainability Steering Committee meets at least on a quarterly basis.

Red Eléctrica's sustainability guidelines and policies define the framework and minimum standards for the business processes, including those financed with the proceeds of Green Finance Instruments issued under this Framework. Red Eléctrica also applies risk management measures in its capital allocation decisions which are supported by a company-wide planning, reporting and controlling system. Examples of internal policies and guidelines, which mitigate any social and environmental risks potentially associated with Eligible Green Projects, are:

- Environmental Policy⁸
- Procurement Policy⁹
- Corporate Responsibility Policy¹⁰
- Corporate Governance Policy¹¹
- Transmission Policy¹²
- Human resources Policy¹³
- Comprehensive Risk Management Policy¹⁴
- Code of Ethics¹⁵
- Climate Change Commitment¹⁶
- Biodiversity Commitment¹⁷

Red Eléctrica's approach to environmental, social and sustainability is described on our website: <https://www.ree.es/en/sustainability/commitment-to-sustainability/responsible-business-model/policies-and-commitments>.

⁸ https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_ambiental_02102014_ing.pdf

⁹ https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_aprovisionamientos_02102014_ing.pdf

¹⁰ https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_responsabilidad_corporativa_24112015_ing.pdf

¹¹ https://www.ree.es/sites/default/files/03_GOBIERNO_CORPORATIVO/Documentos/politica_gobierno_corporativo_25112014_ING.pdf

¹² https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_transporte_02102014_ing.pdf

¹³ https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_recursos_humanos_02102014_ing.pdf

¹⁴ https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/politica_gestion_integral_de_riesgos_2016_ing.pdf

¹⁵ https://www.ree.es/sites/default/files/04_SOSTENIBILIDAD/Documentos/ethics_code_2013.pdf

¹⁶ https://www.ree.es/sites/default/files/climate_change_commitment_march_2017.pdf

¹⁷ https://www.ree.es/sites/default/files/biodiversity_commitment_ree_march2017.pdf

Management of Proceeds

Red Eléctrica intends to allocate the proceeds from the Green Finance Instruments to an Eligible Green Project Portfolio, selected in accordance with the use of proceeds criteria and evaluation and selection process presented above.

Red Eléctrica will strive to maintain a level of allocation for the Eligible Green Project Portfolio which, after adjustments for intervening circumstances including, but not limited to, divestments, matches or exceeds the balance of net proceeds from its outstanding Green Finance Instruments. Additional Eligible Green Projects will be added to the Issuer's Eligible Green Project Portfolio to the extent required to ensure that an amount equal to the net proceeds from outstanding Green Finance Instruments will be allocated to Eligible Green Projects until the maturity of the Instruments.

Pending the full allocation to the Eligible Project Portfolio, Red Eléctrica will hold and / or invest the balance of net proceeds not yet allocated, at its own discretion, in its treasury liquidity portfolio (in cash or cash equivalents, money market funds, etc).

Reporting

The Green Bond Principles (GBP) require issuers to provide information on the allocation of proceeds and recommend communicating on the expected impact of the projects.

Red Eléctrica will make and keep readily available reporting on the allocation of net proceeds to the Eligible Green Project Portfolio and wherever feasible reporting on the impact of the Eligible Green Project Portfolio, at least at the category level, after a year from the issuance of the applicable Green Finance Instruments to be renewed annually until full allocation of the Green Finance Instruments' net proceeds. Any material developments, such as modification of the Framework or allocation portfolio, will be reported in a timely manner.

Red Eléctrica intends to provide aggregated reporting for all of Red Eléctrica's Green Finance Instruments. Reports will be available at: <https://www.ree.es/es/sostenibilidad>.

a) Allocation Reporting

The allocation report will provide:

- the total amount of investments and expenditures in the Eligible Green Projects Portfolio;
- the amount and/or percentage of new and existing projects¹⁸ (share of financing and refinancing);
- the year of investment / disbursement;
- the balance of unallocated proceeds;
- the geographical distribution of the assets (at country level).

b) Impact Reporting

Where feasible, Red Eléctrica intends to report on the environmental impacts of the projects funded with the Green Finance Instruments proceeds, by way of its existing Sustainability Report, and /or specific impact reports. A list of potential indicators is included in Appendix A. These may be supplemented by qualitative and/or case-study reports on outcomes and impacts of the projects funded. Where relevant,

¹⁸ New projects refer to the projects that have been disbursed in the year of the issuance

information may be provided on data reporting and impact assessment methodologies, to increase transparency.

Red Eléctrica intends to align, on a best effort basis, the reporting with the portfolio approach described in "Green Bonds - working towards a Harmonized Framework for Impact Reporting (December 2015)¹⁹".

4. External Review

a) Second Party Opinion

This Red Eléctrica Green Finance Framework has been reviewed by Sustainalytics. The Second Party Opinion prepared by Sustainalytics as well as the Green Finance Framework will be made available to the Green Bond investors on <https://www.ree.es/en/shareholders-and-investors/bonds/green-framework>.

b) Verification

Red Eléctrica intends to request a limited assurance report by an independent auditor regarding the allocation of the proceeds for any Instruments issued under this Green Finance Framework. Such report will be issued annually until all the proceeds of the Green Finance Instruments have been allocated, confirming that an amount equal to the net proceeds of the Green Finance Instruments have been allocated in compliance with the Eligibility Criteria set out in this Green Finance Framework.

¹⁹ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/20151202-0530-FINALRevised-Proposal2.pdf>

APPENDIX A

Table of potential output and impact indicators per category

| Eligible Green bond Category | Potential impact indicators |
|------------------------------|--|
| Renewable Energy | <ul style="list-style-type: none">• Increase of renewable energy capacity (MW)• Expected increase of production of renewable energy (MWh)• Energy efficiency: estimated energy savings achieved (MWh saved)• Estimated annual CO2 emissions avoided (in tCO2 and in TCO2eq.)• MW of interconnection (increase of interconnection capacity (%)) |
| Clean Transportation | <ul style="list-style-type: none">• Transformer capacity assigned to connect high speed train facilities (MVA) |

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