

Sustainability Report

SUMMARY

2018



C O M M I T T E D
T O
I N T E L L I G E N T
E N E R G Y

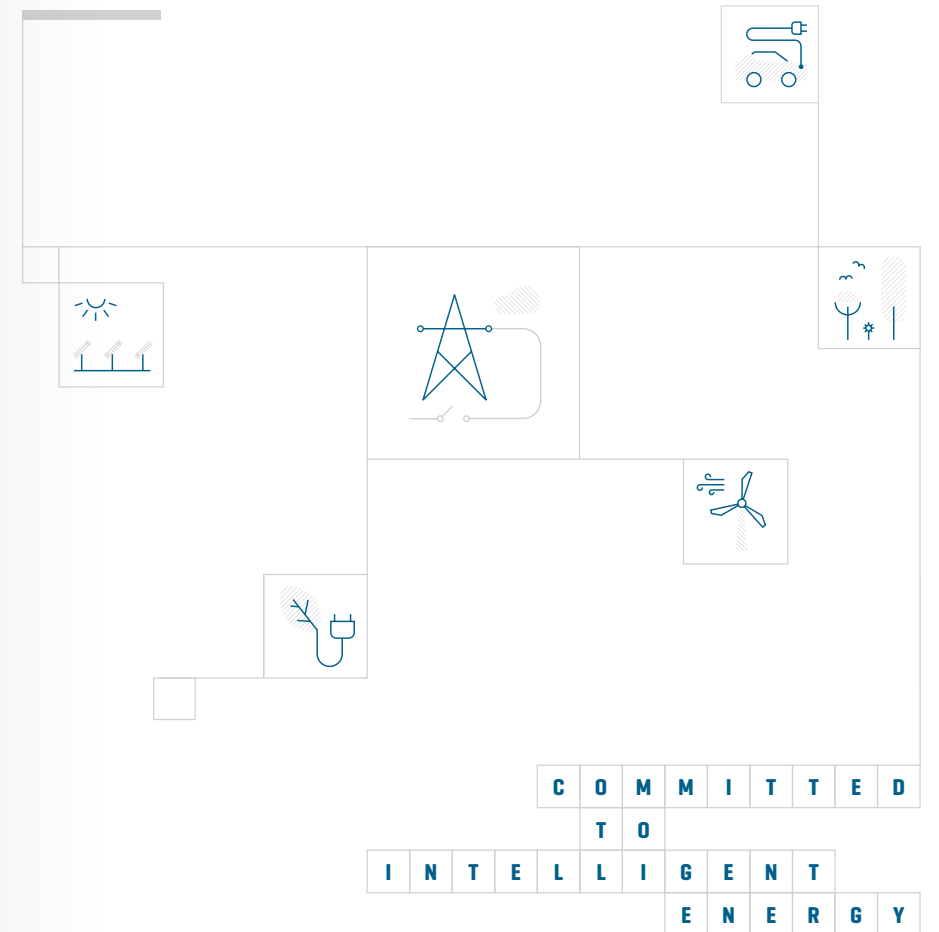


RED
ELÉCTRICA
CORPORACIÓN

Sustainability Report


SUMMARY

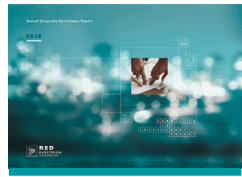
2018




This Report presents a summary of the Sustainability Report 2018. The full version, as well as the legal information (Consolidated Annual Accounts 2018 and Corporate Governance Report 2018) are published solely in electronic format (browsable PDF format) and are available on the corporate website www.ree.es/en.




Sustainability Report 2018 



Corporate Governance Report 2018 



Consolidated Annual Accounts 2018 

T A B L E
O F

C O N T E N T S



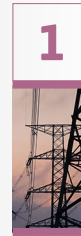
LETTER FROM THE CHAIRMAN AND FROM THE CEO

page 4



KEY PERFORMANCE INDICATORS

page 10



THE RED ELÉCTRICA GROUP

The Company
- Activities of the Red Eléctrica Group

page 12



STRATEGY
2014-2019 Strategic Plan

page 16



COMMITMENT TO SUSTAINABILITY

Our 2030 Sustainability Commitment
- Sustainability principles
- Sustainability priorities

page 20



ANTICIPATING CHANGE AND TAKING ACTION

Sustainability opportunities
- Risk management
- Innovation
- Transformation of the Red Eléctrica Group

page 26



DECARBONISATION OF THE ECONOMY

Climate change and energy transition
- Integration of renewable energy
- Sustainable development of the transmission grid
- Smart grids and demand-side management
- Reduction of the carbon footprint

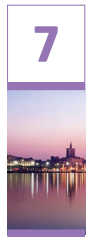
page 34



RESPONSIBLE VALUE CHAIN

Corporate governance
- Ethics and compliance
- Economic results and financial soundness
- Employees
- Responsible environmental management
- Supply chain
- Customer orientation

page 44



CONTRIBUTION TO SOCIAL, ECONOMIC AND ENVIRONMENTAL DEVELOPMENT

Contribution of the activity
- Social development of the territory
- Conservation of natural capital
- Relationship with the socio-economic environment

page 60

LETTER FROM / THE CHAIRMAN



Jordi Sevilla
Chairman of the
Red Eléctrica Group

One of the greatest challenges facing humanity is that of combating climate change. Halting global warming requires urgent action worldwide to reconcile economic growth with the reduction of polluting emissions and this will only be possible through the transition to a decarbonised energy model.

To a large extent, the road to decarbonisation involves the electrification of the economy, a vector that will enable emissions to be reduced, more renewables to be integrated and energy efficiency to be improved. To achieve this, the transformation of the electricity sector towards a more dynamic and flexible model will be crucial, where the combination of non-manageable renewable energies, distributed generation and self-consumption will play an increasingly important role, placing consumers at the heart of the energy transition. Therefore, it will be key to contribute to helping them take on a more active role and optimise their decisions through innovative solutions associated with smart grids and digital transformation.

Within this context, Red Eléctrica needs to play a **leading role** in the energy transition of our country. This will require us to take on enormous challenges as transmission agent and operator of the electricity system that we will need to face through innovation.

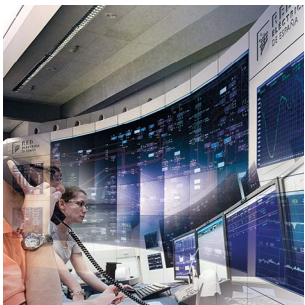
As a result of the strategic nature of the Sustainability Commitment of the Red Eléctrica Group, in 2018 the **Sustainability Committee** was created within the Board of Directors and its aim is to generate a proactive attitude for the integration of sustainability into the decision-making process of the organisation.

Red Eléctrica has strategies in place regarding innovation and digital transformation that act as levers for growth and efficiency. The objective is to incorporate tools and new ways of working that enable a cultural change and promote transformation in the management of the Company and in the way it carries out its business.

An essential element to advance in this aspect is to promote a quality working environment based on ethical business conduct, respect, diversity and equality. To materialise this commitment, the Company approved the Comprehensive Diversity Plan in 2018, which addresses such important issues as gender equality and equal employment opportunities, the promotion of women into positions of responsibility and equal pay between men and women.

Proof of this is the significant progress that the Company is making in these areas, as reflected in the progressive increase in women in the workforce and in managerial positions in recent years. In 2018, 67% of the new appointments for managerial positions were filled by women.

Red Eléctrica needs to play a leading role in the energy transition. This will require us to take on enormous challenges as transmission agent and operator of the electricity system that we will need to face through innovation.



Similarly, noteworthy is the increase in the representation of women on the Board of Directors, which currently stands at 41.7%, one of the highest among the IBEX 35 companies.

The Red Eléctrica Group is aware that its long-term sustainability depends on delivering a service that provides value to society and generates a positive impact. For this reason, the Company fosters the development of **social innovation** projects, that promote sustainability, transformation and collaboration, with the aim of providing innovative solutions with a positive and ongoing social impact nationwide.

This contribution is complemented, throughout the life cycle of the facilities, with a commitment to act with the utmost care and respect for the environment in the execution of the Company's activities, as well as through the promotion of actions for the protection of biodiversity, via the implementation of various initiatives aimed at improving conservation or the promotion of projects in collaboration with government administrations, NGOs and other stakeholder groups.

Furthermore, the Company actively works to contribute to achieving the **Sustainable Development Goals** (SDGs) and to strengthen its commitment in this field. Therefore, during 2018, a process was carried out for prioritising those SDGs on which the Red Eléctrica Group has the greatest impact, according to the countries and sectors of activity in which it operates, and which match those SDGs of medium and high relevance for the Company.

In 2018, the Sustainability Committee was created within the Board of Directors, and its aim is to generate a proactive attitude for the integration of sustainability into the decision-making process of the organisation.



EQUAL
OPPORTUNITIES

67
%

of the new
appointments
for managerial
positions were
filled by women

All these actions showcase the Company's outstanding performance in terms of sustainability and position the Red Eléctrica Group as the only company in its sector that has maintained its continued presence, for the last four years, in the Dow Jones Sustainability World and Dow Jones Sustainability Europe Indexes.

Lastly, it should be noted that Red Eléctrica is voluntarily adhering to various initiatives that strengthen its commitment to sustainability, noteworthy among which is the Spanish Global Compact Network in support of the 10 principles of the United Nations on human rights, labour, the environment and anti-corruption.

LETTER FROM THE / CEO



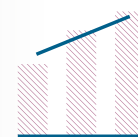
Juan Lasala
Chief Executive Officer

In order to successfully fulfil the role that Red Eléctrica must play in the energy transition, it will not only be essential to increase the flexibility of the electricity system in order to guarantee its safe and secure operation, but it will also be imperative that we invest in innovation for the design of new system management tools. Furthermore, it will be necessary to invest heavily in the transmission grid, making it smart, more reliable and modern, and with greater capacity for energy exchanges with neighbouring systems.

The Company's firm stance on this aspect is set out in its Action Plan regarding the fight against climate change, which, in addition to committing to achieve ambitious targets for reducing the carbon footprint in the 2030 horizon, includes various courses of action to contribute to a zero-emission energy model.

During 2018, we continued to make progress in this aspect. Investment in new infrastructure to bolster the transmission grid totalled 378 million euros. Similarly, we have worked on strengthening international interconnections, especially with France, through the design and development of the submarine link project across the Bay of Biscay, to progress towards achieving the energy targets, set by the EU, for an interconnection capacity of 15% by 2030.

Furthermore, we have continued to maximise the integration of renewables into the electricity system in a safe manner, which has led to the fact that 40% of the peninsular demand was covered with renewable generation. At the same time, we have worked on promoting initiatives aimed at the development of smart grids, energy efficiency and electric mobility, as well



STABLE
GROWTH

profit for the period
in 2018 rose to

704.6

M€

5.2% up on 2017

as on the development of energy storage tools that, in addition to improving security of supply in isolated systems, will enable a greater amount of renewable energy to be integrated into the system.

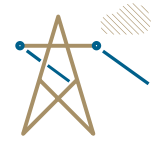
Focusing on international business, the Red Eléctrica Group has continued to expand its business by having been awarded new electricity infrastructure projects abroad. In relation to this, the Company has strengthened its position in the north of Chile, by having been awarded a new project undertaken by Redenor 2, one of our subsidiaries in Chile. Also, noteworthy is the acquisition of Redelnor in Peru, the company responsible for the development of infrastructures in the north of the country. With the incorporation of these new projects, the Red Eléctrica Group will manage 1,729 km of line in Chile and 1,686 km in Peru.

In the telecommunications business, the subsidiary, Reintel, has continued to consolidate its position as the reference telecommunications infrastructure operator in Spain, through the management and commercial operation of the largest dark fibre optic network in the country.

For yet another year, the Red Eléctrica Group has shown stable growth. The Company has achieved sound results and has significantly strengthened its main solvency ratios, maintaining a clear orientation towards operational efficiency and the constant generation of value.

In 2018, the profit for the period rose to €704.6 million, 5.2% up on 2017. With regard to shareholder return in the form of dividends, this grew 7% year-on-year, in line with that set out in the 2014-2019 Strategic Plan.

Key Performance Indicators 2018



BUSINESS

44,069
KM
of line circuit

33,978
KM
Optical fibre

98.13
%
Availability of the peninsular grid

40.1
%
Integration of renewables into the electricity system



FINANCIAL

1,948.5
M€
Revenue

1,539.7
M€
EBITDA

704.6
M€
Net profit

0.9831
€/SHARE
Distribution of dividends



GOOD GOVERNANCE

60.4
%
Attendance at the General Shareholders' Meeting

12
BOARD MEMBERS
Reduced Board of Directors

58.3
%
Independent Board members

41.7
%
Women on the Board

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



EMPLOYEES

1,799
PEOPLE
Group workforce

24
%
Women in the workforce

72
HOURS
Training per employee

3.08
Accident frequency rate



ENVIRONMENTAL

39,272
tCO₂ eq.
Direct emissions (Scope 1)

843
ha
recovered
(Red Eléctrica Forest 2009-2018)

376
KM
Line marked with bird-saving devices in critical priority zones

23.5
M€
Environmental management expenditure



SOCIAL

99
%
Purchases from suppliers within the European Union

743
M€
Total tax contribution

7
M€
Investment in the community

228
M€
Contribution from investment in transmission grid projects (Contribution to GDP)

1

THE RED ELÉCTRICA GROUP

The Red Eléctrica Group has consolidated itself as a global operator of strategic electricity and telecommunications infrastructures, both in Spain and internationally.

The Company

Our strengths...



WE HAVE A TEAM

of highly qualified personnel with technical expertise in the management of essential infrastructures



WE MAINTAIN HIGH

levels of solvency and profitability



WE ARE A WORLDWIDE REFERENCE

in the safe integration of renewable energy



WE HAVE

received the highest recognitions internationally in the field of sustainability

... our challenges

1

Maintain excellence in **sustainability** and boost **innovation** as a lever for growth and efficiency

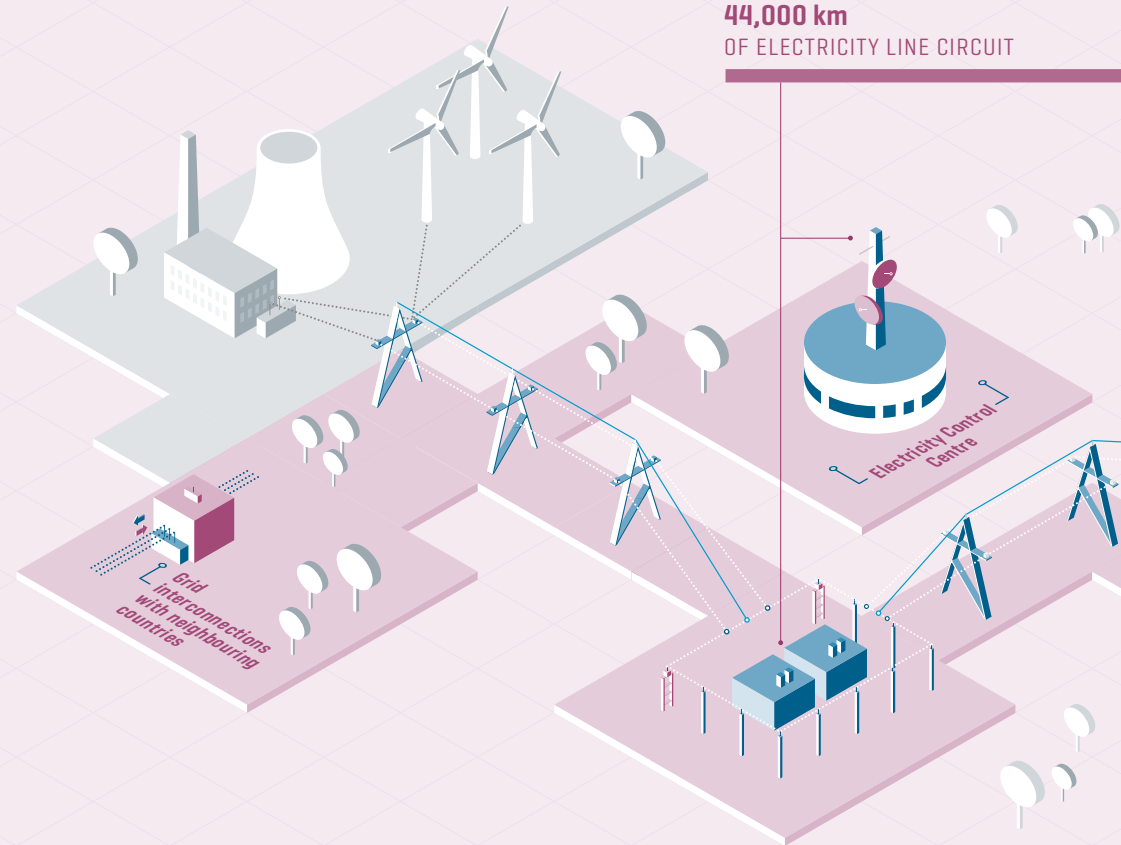
2

Strengthen the **TSO role** to face the **challenges** posed by the new **energy transition** scenario

3

Intensify our commitment to **international** business and be an operator of reference in the field of **telecommunications**

Activities of the Red Eléctrica Group



Electricity business in Spain [RED ELÉCTRICA DE ESPAÑA]

Construction and maintenance of electricity lines and substations of the transmission grid (including international interconnections and links between islands) that connects generation with consumption.

44,000 km
OF ELECTRICITY LINE CIRCUIT

Electricity business abroad [RED ELÉCTRICA INTERNACIONAL]

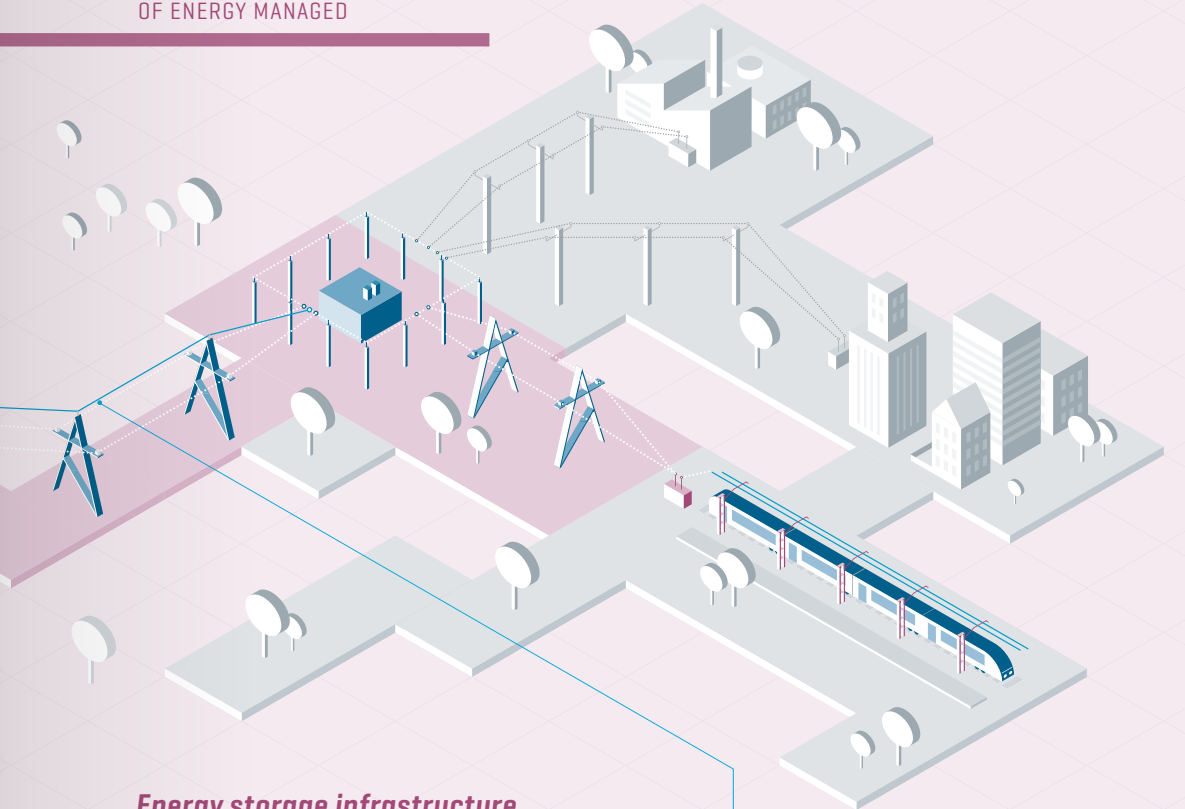
Construction, maintenance and operation of energy transmission infrastructure in Peru and Chile and the provision of electricity infrastructure maintenance services in Peru.



2,635 km of infrastructure
IN SERVICE IN PERU AND CHILE

Real-time operation of the Spanish electricity system, guaranteeing the continuity of supply and the safe integration of renewable energy.

268,000 GWh
OF ENERGY MANAGED



Energy storage infrastructure [REINCAN]

Design and construction of energy storage infrastructure in the Canary Islands that serve as tools for electricity system operation in order to improve the integration of renewables and increase security of supply on the islands.



200 MW of power in the Chira-Soria pumped-storage hydroelectric power station
IN GRAN CANARIA

Telecommunications services [REINTEL]

Commercial operation of the surplus dark fibre optic network associated with both the electricity transmission grid and the railway network, as well as shelters and technical spaces for the housing of telecommunications equipment.

More than 33,000 km
OF FIBRE OPTIC NETWORK

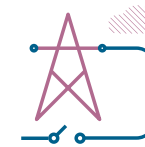
2

S T R A T E G Y

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

2014-2019 Strategic Plan

Essential strategies



DEVELOPMENT
OF THE TSO ROLE



EFFICIENCY



EXPANDING
THE BUSINESS
BASE

Cross-cutting strategies



INNOVATION



EXCELLENCE



PEOPLE

2014-2019 Strategic Plan



Essential strategies



Development of the TSO role

Within this scope, the essential strategy of the Company is focused 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.



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, other than those already underway, and non-regulated activities in the field of telecommunications, as well as expanding the business into other geographical areas.

Cross-cutting strategies



Innovation

Promote innovation as an integral part of the operational process, boosting technological innovation as a lever for growth and efficiency.



Excellence

Consolidate ourselves as a sustainable company, through management that is both ethical and committed to stakeholders, maintaining a position of reference in the field of excellence.

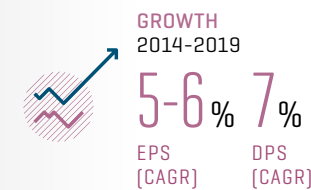
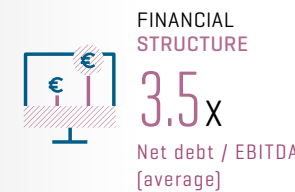


People

Commitment to a healthy working environment that favours the organisation of work and the well-being of employees and promotes talent in order to tackle the challenges faced by the Company.

2014-2019 / STRATEGIC PLAN / SNAPSHOT

2014-2019 TARGETS



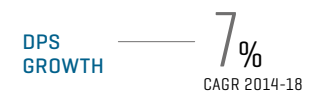
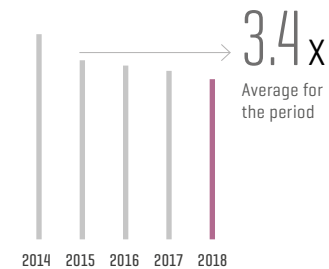
2014-2018 ACHIEVEMENTS

INVESTMENTS MADE

3,456 M€

INVESTMENTS EARMARKED

1,462 M€



[1] Calculated using 2013 as the base year.

Legend: b.p.: base points / EPS: Earning Per Share / DPS: Dividend Per Share
CAGR: Compound Annual Growth Rate

2018-2022 Strategic Plan, diversified and sustainable growth

The new Strategic Plan approved in early 2019, is based on 4 pillars: facilitate the energy transition, consolidate the position as an operator of reference regarding telecommunications infrastructure, expand the business abroad and accelerate innovation in Spain.

This roadmap contemplates a business model that seeks the balance between regulated activities and those activities subject to market risk.

The new Plan responds to the challenges posed by the transformation of the production system model, marked by sustainability and the technological disruption. Electricity, telecommunications and talent are considered today as the new raw materials of economic development and are also the distinguishing features of Red Eléctrica's new strategy.

3

COMMITMENT TO SUSTAINABILITY

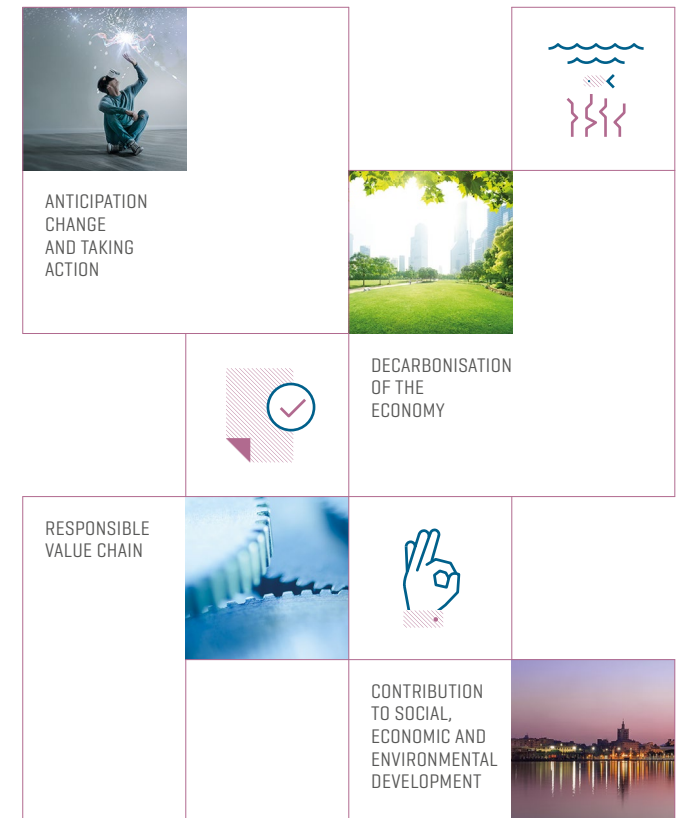
The Red Eléctrica Group has undertaken a commitment to sustainability which is strategic, cross-cutting and with a long-term vision.

Our 2030 Sustainability Commitment

In 2017, the Board of Directors approved the 2030 Sustainability Commitment of the Red Eléctrica Group. With this commitment, the Company is committed to its long-term sustainability through a business model capable of res-

ponding to the challenges of the future by creating shared value with all its stakeholders in the responsible development of our activities.

SUSTAINABILITY PRIORITIES



Sustainability principles

In 2018, as a consequence of the strategic nature of sustainability for the Company, noteworthy was the creation of a new 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 drivers for the Company to meet the challenges it 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:



Sustainability priorities



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 a responsible and sustainable management of the business and make it possible to respond to the expectations of stakeholders. The overall degree of fulfilment of the sustainability programme was 86% at the close of 2018.

In 2018, Red Eléctrica was recognised with the distinction of 'Ambassador of European Excellence' awarded by the Club Excelencia en la Gestión, which is EFQM's representative in Spain.

Sustainability priorities



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.



Responsible value chain

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.



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 through the development and operation of energy storage systems.



Contribution to social, economic and environmental development

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.

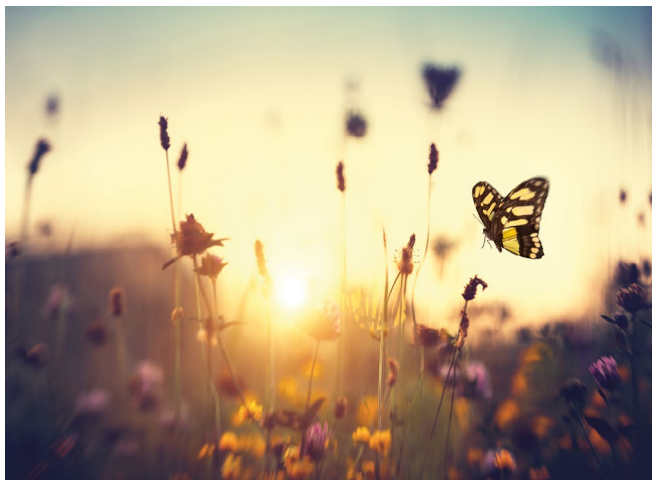
Red Eléctrica is the only company in its sector that has maintained its continued presence, for the last four years, in the Dow Jones Sustainability World and Dow Jones Sustainability Europe Indexes.



OVERALL SATISFACTION LEVEL

of all the stakeholders in 2018 was

8.4
OUT OF 10



STAKEHOLDER MANAGEMENT

The main objective of the Red Eléctrica Group is to establish a lasting relationship, based on trust, with the stakeholders impacted by the Company's services or activities, and those whose opinions and decisions influence the financial results or have an impact on its reputation.

For the third consecutive year, the Group has reached the highest score [100 points out of 100] for its excellent performance and its commitment to its stakeholders in the evaluation that determines which

companies form part of the Dow Jones Sustainability Index.

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 recognitions received in the field of sustainability show the Company's excellent level of engagement and its firm commitment to accountability and transparency.


SUSTAINABLE DEVELOPMENT GOALS (SDGS)


The Red Eléctrica Group is actively working on the development of a large number


of actions within the framework of the 2030 Sustainability Commitment that contribute positively to the achievement of the SDGs. In 2018, the Company carried


out a process of identification and prioritisation of the most relevant SDGs for the Group in the countries and sectors of activity in which it operates.


SDGS OF HIGH RELEVANCE FOR THE GROUP


- 

7 AFFORDABLE AND CLEAN ENERGY
Red Eléctrica actively participates in the transition towards a new energy model, that is more competitive and sustainable, as it is a key agent for ensuring that aspects such as the development of the transmission grid and interconnections, the efficient integration of renewable energy and the management of electricity demand are carried out successfully in the Spanish electricity system.
- 

8 DECENT WORK AND ECONOMIC GROWTH
The development of the activities of Red Eléctrica, as a Spanish company in the IBEX 35, primarily acting as the transmission grid operator of the Spanish electricity system, contributes to the economic growth of the country, generating quality employment and creating jobs, as well as contributing shared value to the economic, environmental and social progress of the environment in which the Company operates.
- 

9 INDUSTRY INNOVATION AND INFRASTRUCTURE
Red Eléctrica contributes to the construction of reliable, sustainable, resilient and high-quality infrastructure and does so seeking to maximise its integration into the environment and ensuring its comprehensive security. Similarly, the Company is developing a digital transformation strategy, which will signify a step towards the digitalisation of its activities and services.
- 

13 CLIMATE ACTION
Since 2011, Red Eléctrica has declared its voluntary commitment to the fight against climate change, defining and approving its climate change strategy and establishing an action plan in this field. Similarly, the Company is a key agent in the transition towards a new energy model that is essential in order to combat climate change.
- 

14 LIFE BELOW WATER
Red Eléctrica generates an impact on the marine ecosystems in which submarine interconnection facilities are built. With the objective of minimising this impact, the Company has criteria for the preservation and protection of marine ecosystems when carrying out interconnection projects, in addition to developing recovery projects for Posidonia oceanica seagrass meadows.
- 

15 LIFE ON LAND
The main environmental impacts of Red Eléctrica are those that are derived from the presence of facilities in the territory. Therefore, the Company works intensively to fully integrate these facilities into the environment and into the territories in which its facilities are located, taking into consideration the full life cycle of facilities and paying special attention to the conservation of biodiversity.

SDGS OF MEDIUM RELEVANCE FOR THE GROUP



4

ANTICIPATING CHANGING AND TAKING ACTION

We proactively carry out our business management based on a culture of innovation as a lever for growth and value creation.



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 thus allowing potential risks to be converted 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.

ANTICIPATING CHANGE AND TAKING ACTION



Sustainability opportunities

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

The fight against climate change is one of the main challenges that offers the opportunity to advance towards a more sustainable energy model. To a large extent, it is all about promoting the electrification of

the economy, a vector that will enable the polluting emissions to be reduced, more renewable energy to be integrated and it will also allow the improvement not only of energy efficiency but also of the air in our cities by fostering electric mobility.

In this regard, the need to increase the share of renewable energy in the electricity system through the connec-

tion of new facilities and the optimisation of their management, together with the enhancements necessary to improve the efficiency and flexibility of the electricity system, represent a clear need for new investment. Therefore, this represents a business opportunity for the Company in terms of the development of more modern electricity infrastructure equipped with smarter technology.

CHALLENGES / AND / OPPORTUNITIES

Actively collaborate

on the definition of the future energy model, identifying opportunities to generate value in the services offered.



Encourage the participation

of society in all project development phases by integrating social and environmental criteria.

Consolidate innovation

as a key lever for growth, thanks to the application of new knowledge and ways of expanding an existing knowledge.



Showcase

the contribution of the Red Eléctrica Group in the achievement of objectives defined in global commitments, such as the Paris Agreements (COP21) and the Sustainable Development Goals.

Anticipate the future requirements

needed for professional profiles on the workforce, guaranteeing a professional environment capable of attracting and retaining the talent needed to tackle the future scenario.



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

In addition, the Group has a Comprehensive Risk Management Policy and a General Procedure for Compre-

hensive Risk Management and Control, which sets the level of risk considered to be acceptable and provides specific action guidelines for managing and mitigating the different categories of risks, including tax risks.

Following the risk analysis performed by the Red Eléctrica Group, the latest Risk Map identifies 120 risks, which are shown below by risk category:

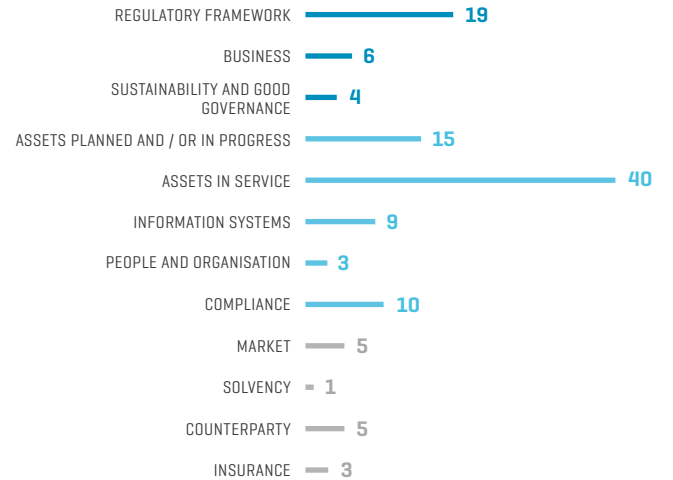
Risk structure 2018

Type of risk %



24 STRATEGIC
64 OPERATIONAL
12 FINANCIAL

Distribution of risks by category N°



The risk management system includes the monitoring of more than 500 action plans aimed at reducing the level of risk and more than 300 performance indicators to monitor their evolution.



Noteworthy actions in 2018

- Review of the methodology for measuring the impact of reputational axis.
- Analysis and redefinition of the structure and reporting of the Group's risks.
- Deployment of the risk management office in investment projects.
- Evolution of the methodology for quantifying the impact on the electricity supply.

MONITORING AND CONTINGENCY PLANS

In the process of identification, analysis, assessment and control of risks, the necessary actions are established to reduce the level of risk and bring it to the acceptable risk value.

In this regard, 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 of a non-electrical nature that could affect the environment,

people, the operational aspects of the Company, the availability of its systems, the business results or any other event with an impact on the reputation of the Company.

In addition, in 2018, the Company progressed in the development of the Business Continuity Plan with the aim of planning the necessary procedures to be able to respond adequately to a disaster, crisis or emergency situation, from the moment in which it occurs, until the moment it returns to normal.

Innovation

The Innovation Strategy extends to all areas of the Group's activity.



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 in place its **2016-2019 Innovation Strategy** aimed at spreading innovation to all areas of business activity, focusing mainly on four vectors: people, digitalisation, technology, sustainability and social innovation.

Innovation Strategy



People

- Boosting innovation.
- Healthy workplace.
- Digital transformation.



Digitalisation

- Digital transformation.
- Optimisation of systems.
- Cybersecurity.
- Virtualisation.



Sustainability and social innovation

- Environmental management
- Biodiversity and Natural Capital
- The fight against climate change
- Social acceptance of facilities/infrastructure.



Technology

- Disruptive research.
- Discontinuous innovation.
- Automatisation and robotics.
- The state of the equipment and facilities.
- Taking advantage of new resources.

Over the last three years, the average investment in innovation projects stood at 9.37 million euros per year.

The commitment of the Red Eléctrica Group to innovation is evidenced by the investment in a portfolio of projects sustained in

recent years. During 2018, the Company had 86 innovation projects underway.

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 anticipate the future of electricity systems, identify the associated challenges and accelerate the development of disruptive technological solutions.

Significant projects

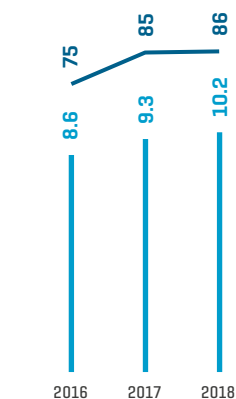
- BEST PATHS** · European project to overcome the technical barriers that the current pan-European electricity grid may encounter when attempting to integrate massive amounts of energy from renewable sources safely.
- MIGRATE** · Project aimed at improving the understanding of the behaviour of the electricity system with a high penetration of devices based on power electronics.
- SUSTAINABLE TRANSFORMER** · Technical validation of the substitution of mineral oil used as an insulating and cooling element in transformers for a biodegradable vegetable oil that is more sustainable and respectful with the environment.
- VEGETA** · Methodology to optimise the plan for managing the treatment cycle of the vegetation growing within the security corridors of lines.



86
INNOVATION
PROJECTS

underway
during 2018

Innovation expenditure
M€



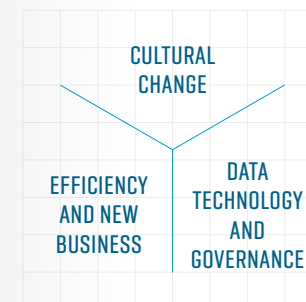
■ Innovation expenditure (M€)
■ Number of projects

Transformation of the Red Eléctrica Group

The Red Eléctrica Group understands digital transformation as the process of changing operations, business models and ways of working, in order to add more value through the development of new digital technologies.

In this regard, the Company has a **digital transformation strategy**, aligned with its Strategic Plan, which makes it possible to address the changes faced by its sector of activity and whose objectives are: improving operational efficiency, the development of new business models and the adaptation of human capital to the digital environment.

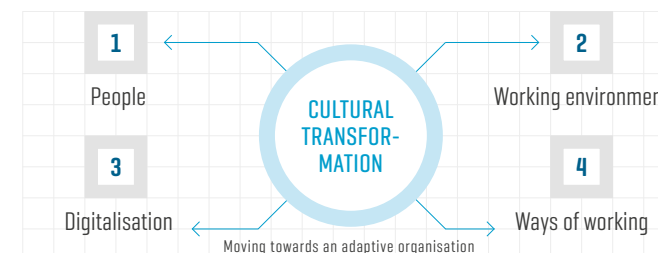
The digital transformation strategy is structured on three interrelated axes:



IMAGINA, cultural axis for transformation

One of the objectives of the Group's digital transformation is to promote a cultural change in human capital to improve its efficiency within a digital company.

Imagina is a project for transforming ways of working, through cultural, technological, process and spatial initiatives, which are driven by the figure of the *Imagineers*.



5

DECARBONISATION OF THE ECONOMY

Red Eléctrica is a key agent in taking on the challenges of decarbonisation and helping to accelerate the energy transition towards a more efficient and sustainable model.

Climate change is a global challenge that is 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 context, 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 through the development and operation of energy storage systems.

DECARBONISATION OF THE ECONOMY

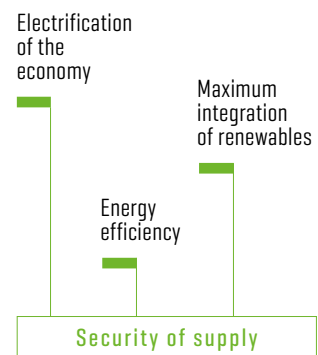
ENERGY TRANSITION AND CLIMATE CHANGE			
		INTEGRATION OF RENEWABLES	
	SUSTAINABLE DEVELOPMENT OF THE TRANSMISSION GRID		
SMART GRIDS AND DEMAND-SIDE MANAGEMENT		REDUCTION OF THE CARBON FOOTPRINT	

Energy transition and climate change

The Red Eléctrica Group gears all its actions towards making the European Union's commitment to energy targets and the fight against climate change a reality, and thus contribute to an acceleration of the energy transition that favours the change towards a more sustainable and efficient model.

Since 2011, the Company has demonstrated its firm stance on climate change. A commitment that is materialised in the 2015-2020-2030 Climate Change Action Plan, and which was updated in 2018, with the purpose of introducing more ambitious targets in terms of emission reduction.

TRANSITION TO A NEW ENERGY MODEL KEY ELEMENTS



Climate Change Action Plan

<p>Contribution to a sustainable energy model</p>	<p>Reduction of the carbon footprint</p>
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Reduction of SF₆ gas emissions. Reduction of electricity consumption and its associated emissions. Improvement in the efficiency of sustainable mobility. Involvement of the supply chain, greater efficiency in the design of facilities and the offsetting of emissions.
<p>Positioning and dissemination of knowledge</p>	<p>Adaptation to change</p>
<ul style="list-style-type: none"> 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 energy efficiency. 	<ul style="list-style-type: none"> Identify and evaluate both the risks and the opportunities arising from climate change and develop actions based on this analysis aimed at mitigating their effects.

Integration of renewable energy



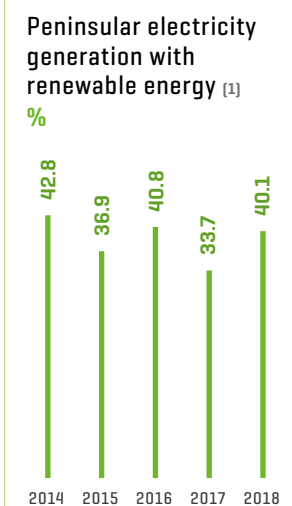
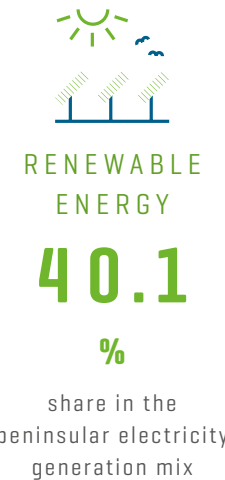
For yet another year, Red Eléctrica's Control Centre of Renewable Energies has helped maximise the safe integration of renewable energy into the electricity system.

The core mission of electricity system operation is to guarantee the security and quality of the electricity supply, maximising the integration of renewable energy.

In order to make the high penetration of renewable energy in the electricity system compatible with the security of supply, Red Eléctrica has the Control Centre of Renewable Energies (CECRE).

During 2018, renewable energy sources represented 40.1% of the total energy generated in the peninsular electricity system, 6.3 percentage points up on 2017.

In line with previous years, noteworthy has been the important share of wind generation, whose contribution to total energy production reached 19.8%, which places this technology in second



[1] Includes: hydro, wind, solar photovoltaic, solar thermal, other renewable and renewable waste.

The construction of the Chira-Soria hydroelectric power station will be an essential tool to advance towards the sustainability of the new energy model in the Canary Islands, improving security of supply.

place in the contribution to demand coverage, behind only that of nuclear power.

ENERGY STORAGE

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



WIND POWER GENERATION

19.8
%

share in the peninsular electricity generation mix

CHIRA-SORIA POWER STATION

This pumped-storage hydroelectric power station will have a power capacity of 200 MW, a figure that represents 36 % of the current peak demand of Gran Canaria.

optimise the efficiency of the electricity system.

The Chira-Soria pumped-storage hydroelectric power station (Gran Canaria)

The construction of this power station between the reservoirs of Chira and Soria 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.

Other energy storage projects

- ALISIOS. Project aimed at maximising the integration of renewables on the island of Tenerife through the implementation of a power-intensive electricity storage system with a power of 25 MW and a capacity of 6.25 MWh.
- ALMACENA. Electrochemical energy storage solution to improve the efficiency of the electricity system, consisting of a lithium-ion battery with a power of 1 MW and a capacity of 3 MWh.

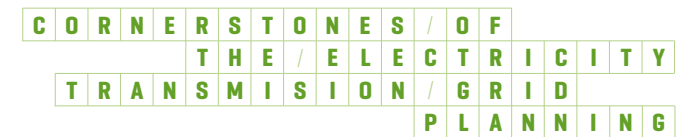
Sustainable development of the transmission grid



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.

The electricity planning includes the projects of new electricity infrastructure necessary to guarantee the

supply nationwide, taking into consideration economic efficiency and environmental sustainability.



Security of supply

Economic efficiency

Environmental sustainability

Red Eléctrica has made an investment of 378 million euros in new electricity transmission infrastructure that guarantees supply nationwide.



NEW CIRCUIT
LINE
IN 2018

277
KM

and 149 new
substation bays

Investment in the
transmission grid
M€



TRANSMISSION GRID CONSTRUCTION

In 2018, investment in the transmission grid primarily responded to security of supply, the resolution of technical constraints, interconnections between electricity systems and providing electrical power for the high-speed train.

Throughout 2018, 277 km of new line and 149 new substation bays were commissioned, and the transformer capacity was increased by 2,592 MVA, with an **overall total investment in the transmission grid of 378 million euros.**

SERVICE QUALITY

For yet another year, Red Eléctrica's service quality indicators show the high level of security and quality of supply provided by its facilities, as reflected in the availability rates of not only the peninsular grid but also those of the Balearic Islands and the Canary Islands.

This is achieved, in part, through the efficient application of sustainable, smart and responsible maintenance policies regarding the transmission grid facilities.

Transmission grid infrastructure

	Total
km of line	44,069
Overhead line (km)	42,243
Submarine cable (km)	835
Underground cable (km)	992
Substation bays (n°)	5,750
Transformer capacity (MVA)	86,846

Peninsular and non-peninsular cumulative data as at 31 December 2018.
Provisional data pending audit

**Service quality
Transmission grid availability rate**

	2016	2017	2018
Peninsular transmission grid	98.31	98.28	98.13
Balearic Islands transmission grid	96.93	97.84	96.80
Canary Islands transmission grid	98.06	98.12	98.45

Provisional data pending audit.



**HIGH
DEGREE**

OF SECURITY
AND QUALITY

of the supply
provided by
electricity
facilities

RED ELÉCTRICA

manages around
44,000 km of
electricity line
nationwide.

Smart grids and demand-side management

Red Eléctrica continues working actively on the promotion, development and dissemination of initiatives that allow the current electricity grid to evolve towards a smarter transmission grid that will enable the energy transition to take place.

Faced with the challenge of maintaining security of supply in a decarbonised electricity system, Red Eléctrica promotes continuous improvement, innovation and communication initiatives with its stakeholders that pave the way towards a smart grid and helps us anticipate solutions, in different fields, and which are currently already shaping the electricity grid of the future.

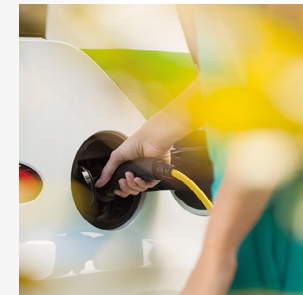
CECOVEL (CONTROL CENTRE FOR THE ELECTRIC VEHICLE)

This control centre of Red Eléctrica enables the monitoring and control of the electricity demand for the charging of electric vehicles.

Smart grids: classification of projects and initiatives

<p>Advanced monitoring and control</p> <p>Increasing the monitoring of system parameters for improved operation.</p>	<p>New analytical models</p> <p>Development of new analytical models to gain greater knowledge and better predict the necessary variables, based on the information received from the smart grid.</p>
<p>Electric vehicle</p> <p>Solutions that facilitate the integration of electric mobility into the system via smart charging.</p>	<p>Telecommunications and cybersecurity</p> <p>Development of the communication network, which enables the smart grid, ensuring the cybersecurity of the connected network.</p>
<p>Optimised management and operation of assets</p> <p>Development of new solutions that allow the management and operation of smart grid assets to be optimised.</p>	<p>Energy storage</p> <p>Incorporation of new energy storage technologies to integrate renewable energy, guarantee supply and system security.</p>
<p>Smart meters</p> <p>Promoting this initiative so that consumption data reaches the consumers and other system users in order to carry out a more efficient management of the system.</p>	<p>Active consumer</p> <p>Initiatives that facilitate information, regarding the electricity system, to consumers allowing them to interact in an active manner.</p>
<p>New solutions for the grid</p> <p>Incorporation of new types of assets into the transmission grid that enable its functionalities to be supplemented and increased.</p>	

Reduction of the carbon footprint



In 2018, the Company redefined its emissions reduction targets in order to increase its commitment in the fight against climate change. The new global target has been approved by the Science Based Target initiative (SBTi).

The Company redefined its targets in this area in 2018, committing to reduce its emissions of scope 1 and 2 per MWh transported by 40% in 2030 compared to 2015, which in absolute terms translates into a reduction of 30% for that same year. In addition, a preliminary reduction target of 10%, compared to the 2015 figure, has been set for the 2020 horizon.

CONTROL OF SF₆ EMISSIONS

The main direct emissions derived from the activities of Red Eléctrica are those of sulfur hexafluoride [SF₆]. This is a priority issue for the Company and, therefore, it has different courses of action and research underway aimed at a better handling and control of the gas and the reduction of leaks.

EFFICIENCY IN ELECTRICITY CONSUMPTION

One of the cornerstones of the Company's climate change strategy is the commitment to the implementation of energy efficiency measures at all levels. In this regard, during 2018 there was

a reduction of 86.4% in the emissions associated with electricity consumption in the work centres and 85% of the electricity consumed was of renewable origin.

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, for which it has a Sustainable Mobility Plan in place whose main courses of action are: improving 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 work on ways of offsetting emissions. In this regard, the Company offsets its emissions through the planting of trees as part of the 'Red Eléctrica Forest' project, in addition to the offsetting measures resulting from the purchase of 2,090 Verified Carbon Unit.

6

R E S P O N S I B L E V A L U E C H A I N

The Red Eléctrica Group maintains its commitments to extending its corporate responsibility, based on transparency, integrity and sustainability, to all stakeholders that are related to the development and execution of its activities.

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 alliances and by basing it on our governance and integrity model.

RESPONSIBLE VALUE CHAIN



Corporate governance

The Red Eléctrica Group has a robust and transparent corporate governance system, aligned with international best practices and recommendations, and voluntarily implements initiatives that go beyond legal compliance, in order to strengthen commitments and align its interests with those of shareholders, investors, markets and other stakeholders.

Shareholder structure %



- 20 SEPI
- 66 FOREIGN INSTITUTIONS
- 4 SPANISH INSTITUTIONS
- 10 MINORITY SHAREHOLDERS

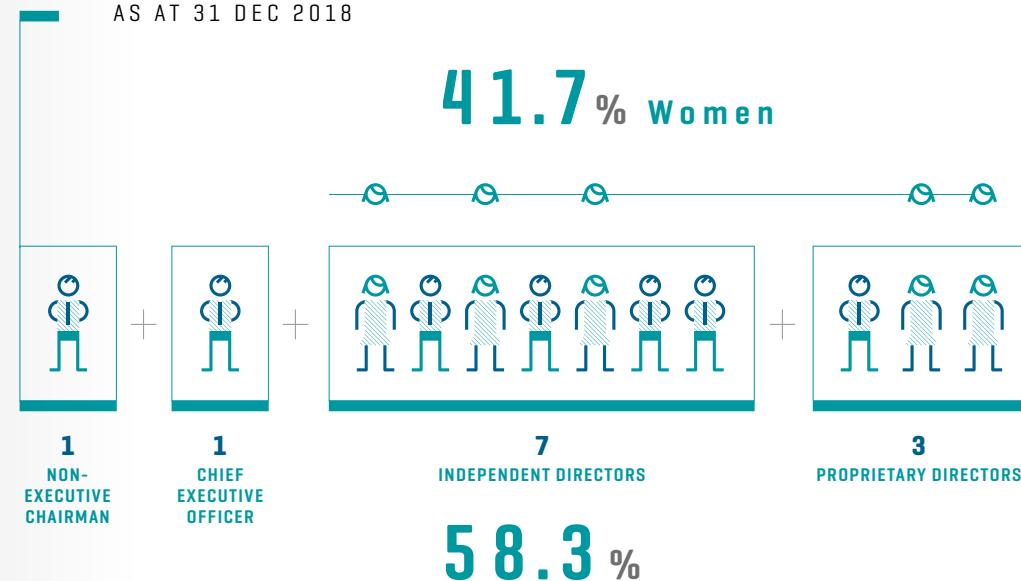
Noteworthy actions in 2018

<p>Effectiveness, efficiency and professionalism</p> <ul style="list-style-type: none"> Appointment of the new non-executive Chairman of the Board of Directors. Orderly succession of the Chairman of the Company. Appointment of two proprietary directors with extensive and proven professional experience in the activity sector of the Company. Application, during the financial year, of the induction plan for new board members. Reorganisation of the committees of the Board of Directors. Updating contingency plans for the succession of the Chairman of the Board of Directors and the CEO. Re-election of two independent directors and ratification of a proprietary director at the Ordinary General Shareholders' Meeting, with an average percentage of 96.9% of the votes in favour. Assessment of the Board of Directors with the collaboration of an external consultant. 	<p>Diversity</p> <ul style="list-style-type: none"> Development of a new individual skills and competencies matrix for the Board of Directors. Women represent 41.7% of the Board of Directors, one of the highest levels in the IBEX 35.
	<p>Commitment to sustainability</p> <ul style="list-style-type: none"> Creation of a new committee within the Board of Directors – the Sustainability Committee. New responsibilities assigned to the Appointments and Remuneration Committee in its relationship with employees.
	<p>Recognitions</p> <ul style="list-style-type: none"> Recognition by the prestigious publication 'Ethical Boardroom Magazine' for excellence in corporate governance. The Company was included among the leading European companies receiving an award in the Ethical Boardroom Corporate Governance Awards 2018.

GENERAL SHAREHOLDERS' MEETING

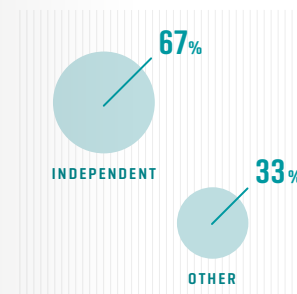
Board of Directors

AS AT 31 DEC 2018



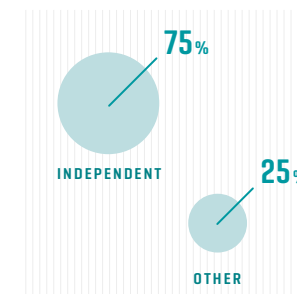
Appointments and Remuneration Committee

CHAIRPERSON
Independent director



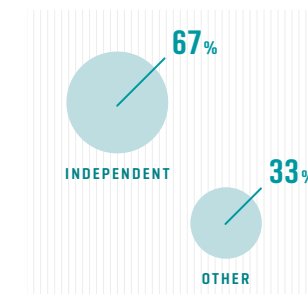
Audit Committee

CHAIRPERSON
Independent director



Sustainability Committee

CHAIRPERSON
Independent director



**B O A R D / O F
D I R E C T O R S**

AS AT 31 DEC 2018



CHAIRMAN
Jordi Sevilla Segura



CHIEF EXECUTIVE OFFICER
Juan Francisco Lasala Bernard

EXTERNAL PROPRIETARY DIRECTORS (SEPI)



Mercedes Real Rodríguez
Member of the Audit Committee



María Teresa Costa Campi
Member of the Sustainability Committee

EXTERNAL PROPRIETARY DIRECTORS



Carmen Gómez de Barreda Tous de Monsalve
Chairwoman of the Sustainability Committee and Lead Independent Director



María José García Beato
Member of the Audit Committee



Antonio Gómez Ciria
Chairman of the Audit Committee



Socorro Fernández Larrea
Member of the Appointments and Remuneration Committee



José Luis Feito Higuera
Chairman of the Appointments and Remuneration Committee

SECRETARY OF THE BOARD OF DIRECTORS



Antonio Gómez Expósito
Member of the Appointments and Remuneration Committee



Rafael García de Diego Barber
Non-Board director



Arsenio Fernández de Mesa y Díaz del Río
Member of the Audit Committee



Alberto Carbajo Josa
Member of the Sustainability 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 ethical values and business conduct guidelines

In addition, it has a **compliance system** aligned with best practices, whose objective is to ensure compliance with the obligations and commitments assumed, in accordance with a proactive management culture of compliance risks.

Similarly, the Company has a Human Rights Management Model aligned with the Guid-

ing Principles on Business and Human Rights of the United Nations [UN].

Noteworthy actions in 2018

- Design and implementation of the data protection compliance system.
- Designation of the data protection delegate and creation of the data protection advisory body.
- Approval of the guide for the management of conflicts of interest of the management team.
- Creation of the consultative body to deal with conflicts of interest.
- Design of a specific criminal prevention compliance system for the subsidiaries of the Red Eléctrica Group in Latin America.
- Definition of a specific methodology for the identification and assessment of compliance controls.
- Development of the awareness and dissemination plan regarding the 2018 Compliance System.

**I N T E G R I T Y / M O D E L / O F
T H E / R E D / E L É C T R I C A / G R O U P**

Code of Ethics



Compliance System

Supplier Code of Conduct



Criminal Prevention Compliance System

Guide for the Prevention of Corruption: Zero Tolerance



Economic results and financial soundness

During 2018, Red Eléctrica showed stable growth, in line with that established in its strategic plan. The Company has achieved sound results and has significantly strengthened its main solvency ratios, maintaining a clear orientation towards operational efficiency and the constant generation of value.

SHAREHOLDER RETURN

In 2018, direct return to the shareholder in the form of dividends grew by 7% compared to the previous year.

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.

The gross dividend to be distributed is **0.9831 euros per share**. On 8 January 2019, a gross interim

dividend pay-out of 0.2727 euros per share was made, with 0.7104 euros per share pending distribution.

Financial debt structure %

FIXED VS. VARIABLE RATE



90 FIXED RATE
10 VARIABLE RATE

SHORT-TERM VS. LONG-TERM



91 SHORT-TERM DEBT
9 LONG-TERM DEBT

Key financial indicators

| M€ |

	2017	2018	Δ%
Revenue	1,941.2	1,948.5	0.4%
Gross operating profit (EBITDA)	1,519.5	1,539.7	1.3%
Net operating profit (EBIT)	1,031.4	1,069.8	3.7%
Profit before tax	890.2	936.3	5.2%
Net profit	669.8	704.6	5.2%
Non-current assets	9,214.2	9,303.5	1.0%
Net equity	3,093.4	3,361.4	8.7%
Operating cash flow after tax	1,187.9	1,218.9	2.6%
Total investment	510.2	546.6	7.1%
Net Financial Debt	4,791.8	4,682.7	-2.3%

Employees



As at 31 December 2018, the Red Eléctrica Group had a total workforce of 1,799 people. 96% of the total [1,721 people] carry out their activity in Spain and 4% in Peru and Chile.

Red Eléctrica offers its employees stable and quality employment [99.4% of job positions are of an indefinite nature], undertaking the commitment to employability and functional mobility as a lever for growth and professional development [8.9% functional mobility in 2018].

RED
ELÉCTRICA
GROUP
WORKFORCE
1,799
PEOPLE

THE RED
ELÉCTRICA GROUP

is committed to employability and functional mobility as a lever for growth and professional development [8.9% functional mobility in 2018].

Key employment indicators ^[1]

	2016	2017	2018
Total workforce	1,682	1,741	1,721
Women (%)	23.7	24.4	24.1
Men (%)	76.3	75.6	75.9
Women in managerial positions (%)	21.8	24.8	28.8
People with some type of disability (%)	0.77	0.83	0.88
Creation of net employment (N° of posts)	-15	35	-20
Average age	45	45	46
Average length of service (years)	16	16	17
Undesired external turnover (%) ^[2]	2.0	2.6	2.4
Total turnover (%) ^[2]	2.8	3.7	3.7
Permanent contracts (%)	99.8	98.3	99.4

^[1] Data regarding the following companies: Red Eléctrica de España + Red Eléctrica Corporación until 2016; As of 2017 it encompasses the following: Red Eléctrica de España + Red Eléctrica Corporación + REINCAN + Red Eléctrica Internacional + REINTEL.

^[2] Scope of the data: Red Eléctrica de España + Red Eléctrica Corporación.

Red Eléctrica promotes a corporate culture favourable to diversity which is integrated into all Company processes, especially in the management of people, and this is extended to its stakeholders.



Courses of action regarding the 2017-2019 Human Resources Master Plan

- Change management
- Process optimisation and simplification
- Talent management and development
- Leadership in occupational health and safety: healthy workplace.

DIVERSITY

The Red Eléctrica Group materialises its commitment to diversity, inclusion and non-discrimination through the

PRINCIPLES / OF / THE / HUMAN RESOURCES / MASTER / PLAN

Efficiency



Equal opportunities

Work-life balance



Fair and personalised treatment for all professionals



Respect for diversity



In 2018, 67% of the new appointments to managerial positions were filled by women, which highlights the Company's commitment to equal opportunities for both men and women.

Diversity Management Model, set out in the Comprehensive Diversity Plan, approved in 2018, which enables the previous models of equality, disability and age to be incorporated into the same framework. This is accomplished through the commitment to talent diversity, social and labour inclusion and non-discrimination, therefore challenging stereotypes and cultural barriers.

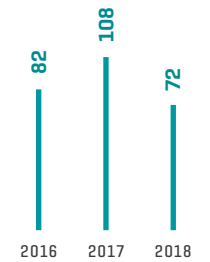


Similarly, progress has been made in the action plan associated with the Disability Management Model, reaching 2.63% of full-time equivalent employment for people with disabilities.

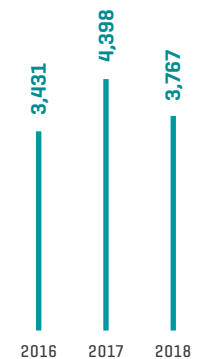
GENDER EQUALITY AND EQUAL OPPORTUNITIES

Gender equality is one of the vectors included in the Comprehensive Diversity Plan that addresses important issues such as gender equality and employment opportunities, the promotion of women into positions of responsibility and equal pay for both men and women. In 2018, noteworthy was the signing of the agreement with the Royal Academy of Engineering for the creation of a female talent pro-

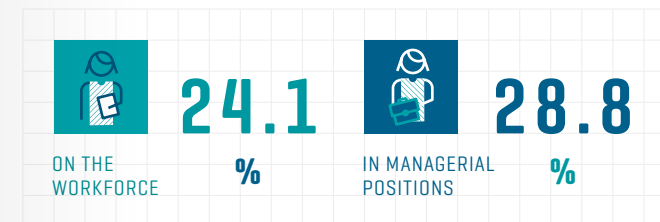
Training hours per employee



Investment in training per employee M€



Percentage of women



Data regarding the Group in Spain.

Data regarding the Group in Spain.

During 2018, 'REE Avanza' was created, an initiative aimed at sharing technical knowledge and experience, and encouraging debate and the exchange of ideas.



programme called Women and Engineering Project within STEM disciplines (Science, Technology, Engineering and Mathematics).

TALENT MANAGEMENT

Red Eléctrica's Talent Management Model constitutes an essential principle of the Human Resources Master Plan. Its objective is to attract, nurture, develop, train and retain talent, as well as to promote the exchange of knowledge.

In 2018, the Company consolidated, within the Red Eléctrica Group Campus, the **Leadership and Strategy Institute** whose objective is to promote cultural trans-

formation with a new leadership approach.

Under the 'Transformative Leadership' initiative, a series of managerial skills are deployed:

- Development of leaders (directors) and team development (heads of department).
- Transformation and innovation.
- Impact, influence and management of stakeholders.
- Change management.
- Strategic vision.
- Business development.

**H E A L T H Y / W O R K P L A C E
M O D E L / P R I N C I P L E S**

Physical work environment

Provide the necessary means to perform the tasks associated with the role under the optimal health and safety conditions.



Involvement in the community

Actions carried out by the Company that can impact on the improvement of the health and well-being of the families of its employees and the local communities in which the Company's facilities are located.

Health resources

Provide the workforce with tools to improve their state of physical and mental health, contributing to their well-being and quality of life.



Psychosocial work environment

Implement tools and resources regarding the management and organisation of work that promote the physical and psychosocial well-being of employees.

In 2018, around 11,000 safety inspections were carried out for works conducted in facilities, which led to 2,400 corrective actions, of which 92% have been resolved.

HEALTHY WORKPLACE

The Company has a **Healthy Workplace Management Model** that promotes the implementation of best practices in safety, health and well-being.

In this area, the **prevention of occupational risks** is an essential requirement to guarantee the health and safety of employees and collaborators. The action strategy goes beyond legal compliance and its purpose is to train, inform and raise awareness about



TRAINING
(IN OCCUPATIONAL SAFETY RISKS)

907
PEOPLE

5,612 hours



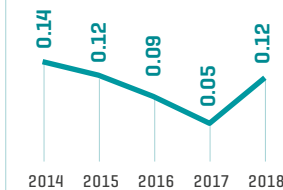
obligations and responsibilities, seeking the commitment of all people.

Health promotion in the workplace

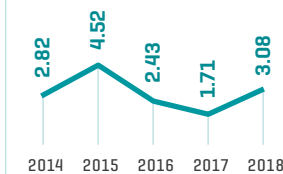
In 2018, various awareness and training initiatives were developed that were oriented to improve knowledge on various health issues, with a dedication of 700 hours.

These initiatives position Red Eléctrica as a benchmark in this field and allow it to collaborate as an expert on projects led by official entities such as the project 'Benefits of promoting physical and sporting activity in terms of improving health, well-being and business productivity' led by the National Institute of Health and Safety at Work and the Ministry of Employment and Social Security.

Accident severity rate
EMPLOYEES



Accident frequency rate
EMPLOYEES



Data regarding the Group in Spain.

Pioneering Dual FP (Vocational Training) programme in Spain

Advanced Technical Expert in Power Stations Degree

In order to encourage the certification of students within a higher-level of vocational training Red Eléctrica has been actively involved in the setting up of a theoretical-practical vocational training programme within the Dual FP system for the Advanced Qualification for Power Station Technicians.

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].

Similarly, the Company has a multi-year Biodiversity Action Plan that sets out the challenges and main objectives for the period 2017-2021.

BIODIVERSITY

The management of biodiversity is carried out taking into account the hierarchy

of actions geared towards mitigating environmental impacts.

In this regard, **avoiding** protected areas is a basic criterion in selecting the location for facilities (only 15% of the lines and 5.9% of the substations are in protected areas).

Main actions for the integration of facilities into the environment



Minimising the impact on the 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).
- Switching off external lighting at night in substations.



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.



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).

100% of the projects are submitted to an environmental impact assessment.

In addition, the application of the corresponding preventive and corrective measures, including the restoration of affected areas, allows the possible impacts on the habitats and species to be minimised.

Lastly, different actions and projects for environmental

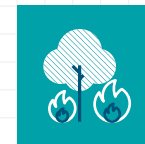
improvement are carried out, in order to **offset** part of the impacts that may have been produced.

Main actions in the protection of biodiversity



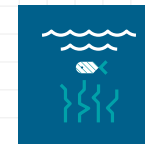
Protection of habitats and species

- Preventive and corrective measures to avoid the alteration of the habitat of certain species of fauna and flora, as well as the impact on vegetation (HABITAT Project).



Prevention of forest fires

- Signing of agreements for the prevention of forest fires, collaborating with public administrations (13 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 and the Prodint Project).



Protection of birdlife

- Multi-year power line marking plan with bird-saving devices for electricity infrastructure in critical priority areas. 357.7 km of line marked (51.2% of the total of critical areas).

Supply chain

In order to manage its supply chain, Red Eléctrica has in place a responsible management model based on the principles of non-discrimination, mutual recognition, proportionality, equal treatment and transparency.

The management of the supply chain is developed within the framework of the Supplier Code of Conduct that establishes the ethical, social and environmental requirements that all suppliers must accept and comply with, with the commitment to extend it to their own supply chain.

In 2018, Red Eléctrica carried out civil works through the use of 1,049 suppliers, for a total of 580 million euros. 82% of this amount corresponds to services and civil works, while the remaining 18% was for materials and equipment.

CERTIFICATIONS

100% of suppliers with environmental and occupational health and safety impacts are certified under ISO 14001, OHSAS 18001 or equivalent.

96% of the purchases were awarded to suppliers with head offices in Spain and 99% of purchases were made within the European Union. This consolidates the Company as a driver for the development of business, industrial and social growth in its socio-economic environment, through the creation of employment throughout the supply chain.

In accordance with its commitment to sustainability, Red Eléctrica has continued to go into greater depth regarding the identification of requirements that must be fulfilled by its suppliers in this field, for which it has prepared the matrix of impacts corresponding to the supplies of equipment and/or materials; and has updated the one related to services and civil works. Additionally, the impacts associated with suppliers located in countries with potential risk in

socio-labour conditions have been identified.

In addition, with the aim of extending its sustainability commitment throughout the supply chain, Red Eléctrica places special emphasis on the areas of occupational health and safety, the environment and respect for human rights. Therefore, it carries out a monitoring process of the severity and frequency of accident rates of its contractors and implements measures to guarantee maximum levels of safety during work.

Sustainable management pillars regarding the supply chain

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

Customer orientation

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

Furthermore, the Company is obliged to publish information regarding the price of energy in the markets, as well as information on processes associated to system operation, guaranteeing at all times the confidentiality of the data provided by the market agents in accordance with the criteria of information transparency and confidentiality established in the applicable European and national regulations in force. This communication and publication of information is done through various channels and information platforms.

Telecommunications services

REINTEL has its own permanent help desk and supervision centre [24/7] that controls and monitors the state of the fibre optic network and deals with any incidents and also handles the Client's scheduled work, in order to offer a reliable service of the highest quality.



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.

ENTSO-E transparency website. Platform designed for sending data from the electricity markets, in accordance with the provisions set out in the Transparency Regulation.

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

Other information channels

Reporting to ACER (Agency for the Cooperation of Energy Regulators). Information on explicit capacity auctions and electricity nomination programmes regarding capacities communicated by the participants in said auctions.

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

Voluntary Price for the Small Consumer (PVPC). Information related to the PVPC, in compliance with the provisions of Royal Decree 216/2014.

7

CONTRIBUTION TO SOCIAL ECONOMIC AND ENVIRONMENTAL DEVELOPMENT

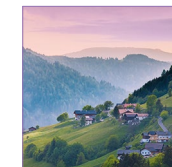
Our commitment to social, economic and environmental aspects are geared toward the creation of shared value with society, involving communities in the development of our activities to generate mutual benefit.

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 socio-economic environment, whereby the social footprint is one of the key drivers of a company's 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.

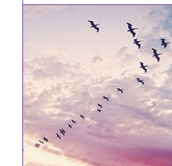
CONTRIBUTION TO THE SOCIAL, ECONOMIC AND ENVIRONMENTAL DEVELOPMENT



CONTRIBUTION OF THE COMPANY'S ACTIVITIES



SOCIAL DEVELOPMENT IN THE TERRITORY



CONSERVATION OF NATURAL CAPITAL



RELATIONSHIP WITH THE SOCIO-ECONOMIC ENVIRONMENT



Contribution of the activity



The investment made by the Company incentivises production, generating an increase in wealth (measured through the country's GDP), which at the same time promotes employment and generates tax contributions for the public administration that can then be dedicated to improving the overall well-being of society.

ECONOMIC AND SOCIAL CONTRIBUTION OF INVESTMENTS

Red Eléctrica focuses its socio-economic and environmental commitment towards the creation of shared value, promoting actions and investments, which in turn generate shared value, have a positive impact on the quality of life of those citizens in locations where the Company's facilities are located.

In 2018, Red Eléctrica made a **total investment in the transmission grid of 378 million euros**, of which it is estimated that 103 million euros were allocated to the import of the goods needed to carry out the activity. The remaining 276 million euros were for direct investment in Spain, and the impact of this investment is outlined in the table below.

Total impact of the investment in the transmission grid

	Direct	Indirect	Induced	Total
Production (M€)	276	262	26	564
Income - GDP (M€)	110	110	9	228
Employment (number of jobs)	1,892	1,982	272	4,146
Tax revenue (M€)	43	42	4	89

Impacts calculated with the methodology based on the implicit activity multipliers obtained in the Input-Output Tables that allow the overall level of activity generated, stemming from an initial investment, to be estimated.

Impacts of the investments

Direct Impact

Estimation and valuation of the supply and production chain and the creation of employment and incomes that are generated in the national economic system stemming from an initial investment.

Indirect Impact

Generation of income and new employment derived from the fact that, in order to execute the investments, the direct awardees need to acquire other goods and services from the rest of the supply and production chain (intermediate consumption). This then generates demand for other goods and services further down the chain.

Induced Impact

Impact derived from all the income generated in the previous stages. This effect includes 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.

Since 2014, Red Eléctrica voluntarily publishes its Total Tax Contribution, highlighting the relevant economic and social function derived from the Group's tax contribution

TAX TRANSPARENCY AND CONTRIBUTION

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.

In this regard, the vision of the tax strategy is to manage tax matters in a proactive, transparent manner and that is accountable to all stakeholders, in order to comply with

tax legislation and minimise reputational risk, in addition to making it compatible with the protection of shareholder value.

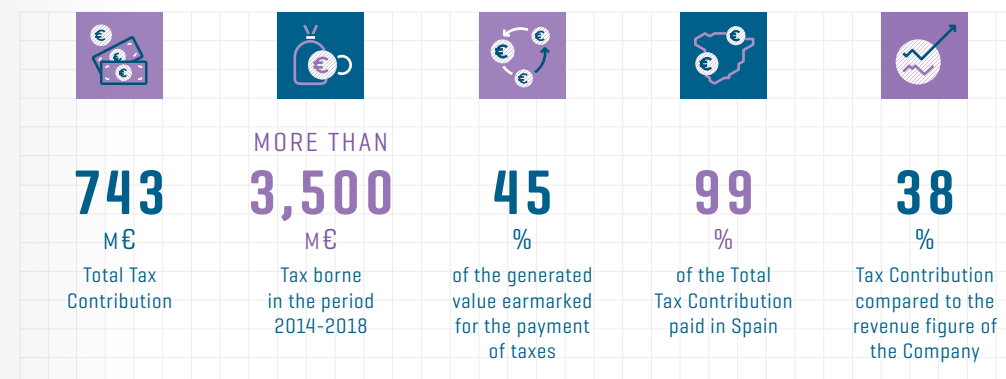
Total Tax Contribution 2018

M€	Spain [1]	Peru	Chile	Total
Taxes borne	246	3	1	250
Corporate tax	202	3	1	206
Other taxes	44	-	-	44
Taxes collected	490	3	-	493
VAT	398	2	-	400
Other taxes	92	1	-	93
Tax Contribution	736	6	1	743

[1] Includes other EU countries.



Key data in 2018



The long-term sustainability of the Company depends on delivering a service that provides value to society and generates a positive impact.

CREATING SHARED VALUE THROUGHOUT THE LIFE CYCLE OF INFRASTRUCTURES

The Red Eléctrica Group is aware that its long-term sustainability depends on delivering a service that provides value to society and generates a positive impact. For this reason, it accompanies its

projects for new electricity infrastructures nationwide with collaborative programmes that reflect its social commitment and pursue the objective of contributing to the development of the communities in which its facilities are located.

This contribution is supplemented by a commitment

to ensuring the utmost care and respect for environment in the execution of activities, throughout the life cycle of the facilities. Furthermore, it fosters the protection of biodiversity, through the development of various initiatives and projects aimed at its conservation.

CREATION OF SHARED VALUE THROUGHOUT THE LIFE CYCLE OF INFRASTRUCTURES



Electricity system operation

Guaranteeing an efficient, secure and sustainable electricity supply to citizens and businesses.

Integrating renewable energy.

Managing the transmission grid in a neutral and efficient way.



Development and maintenance of transmission grid infrastructure

Accompanying projects with collaborative programmes that contribute to the development of the communities where the facilities are located.

Respect for the social and natural environment as an essential principle of action.

Searching for solutions that generate the least possible environmental impact.

Promoting the participation of society in the process, through permanent dialogue and collaboration.

Social development of the territory

Red Eléctrica understands social innovation as an open and collaborative model to respond to the needs of society.

of social innovation with external stakeholders, with the intention of responding to their needs through innovative and more effective solutions. This model allows opportunities to be identified in each territory, taking into account their interests to establish firm, participatory and permanent

links with the various social entities.

In this regard, the Company promotes the development of sustainable, transformative, scalable and replicable projects, with the aim of developing initiatives of long-term positive social impact nationwide.

The social commitment of the Red Eléctrica Group is aimed at creating sustainable value in the territories in which it is present and with which it maintains a constant communication to identify its needs and improve the quality of life of citizens.

The contribution of the Company to society is materialised through the set of projects and actions that are carried out in response to the sustainable development of the territory, such as: **local development and education, culture and heritage.**

SOCIAL INNOVATION

Red Eléctrica promotes an open and collaborative model

Lecrinnova, a pioneering social innovation project for socio-economic development in Granada

Within the commitment to social innovation, in 2018, in the *Valle de Lecrín* (Granada), *Lecrinnova* was launched, a pioneering project that stems from the commitment to creating shared value with society.

The aim of the *Lecrinnova* project is to implement new innovative solutions in the territory and is conceived as a comprehensive public-private collaboration programme. Its implementation is developed through three courses of action:

- Training for young unemployed women.

- Support for entrepreneurs.

- Design of new food products.

These three initiatives aim to help make the *Valle de Lecrín* an attractive place to live, reversing the depopulation process, retaining its youth and local talent, and even encouraging the arrival of new residents to the area.

The ultimate goal of the project is for municipalities and local entities to take over and continue to promote this territory both economically and socially.

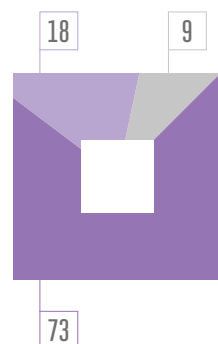
INVESTMENT IN THE COMMUNITY

In 2018, the Company contributed 7 million euros to the development or promotion of social initiatives; an amount obtained by applying the methodology of the LBG [London Benchmarking Group].



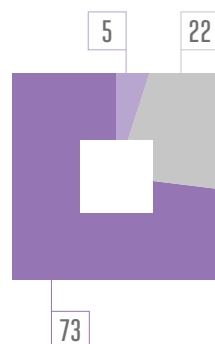
Contribution 2018

Type of contribution %



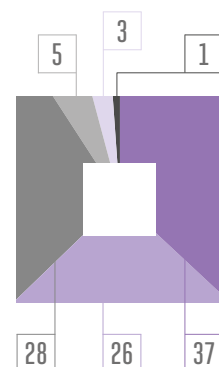
- 73 MONEY
- 18 TIME
- 9 MANAGEMENT COSTS

Reasons for action %



- 73 INITIATIVE ALIGNED WITH THE BUSINESS
- 22 SOCIAL INVESTMENT
- 5 ONE-OFF CONTRIBUTION

Area of action %



- 37 SOCIO-ECONOMIC DEVELOPMENT
- 28 ENVIRONMENT
- 26 EDUCATION
- 5 SOCIAL WELL-BEING
- 3 ART AND CULTURE
- 1 OTHER

Red Eléctrica fosters the dissemination of information regarding how the electricity system works and also raises the awareness of citizens regarding the sustainable and responsible use of energy.

DISSEMINATION OF KNOWLEDGE

In the field of knowledge dissemination, Red Eléctrica plays an active role to disseminate and showcase the **functioning of the electricity system** as a whole, as we are aware that a more informed society has a greater capacity to develop and maintain a sustainable energy model.

The Company also pays special attention to higher

education and training in the area of energy and the environment. During 2018, noteworthy was the organisation of 38 visits to facilities to help with the training of 926 students of master's degree programmes or specialisation courses from schools and universities. Also noteworthy were the 20 collaboration agreements signed with universities and training entities.



SUPPORT FOR TRAINING

926

STUDENTS

of master's or specialisation courses paid a visit to Company facilities spread across a total of 38 separate visits

'A highway behind the wall socket'

This travelling exhibition aims to explain the electricity supply process, from generation to consumption, showcasing the activities of Red Eléctrica in the operation of the Spanish electricity system, in addition to making citizens aware of the need to consume electricity in an efficient and responsible manner. This exhibition, which began its journey in 2010, has travelled to ten Spanish cities accumulating a total of more than 1,000,000 visits.

REE in the classroom

This project is an educational programme aimed at children which seeks to show them how the electricity arrives to their homes and instil in them the concept of responsible consumption. The educational activities revolve around 'entreREDes', a digital educational application based on answering questions which allows the students to take a virtual tour of Spain travelling along the main electricity lines and substations. Since 2016 more than 15,600 students nationwide have played the game.

Conservation of natural capital

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. Among these, the following are noteworthy:

- The 'Red Eléctrica Forest': the planting of trees in order to recover degraded natural spaces, support for the development of local economies and offset a part of the Company's emissions.



- The 'Red Eléctrica Marine Forest': the restoration of *Posidonia oceanica* seagrass meadows in the Bay of Pollensa [Balearic Islands].

- Forestry management and the fight against forest fires: development of collaboration agreements with public administrations, to carry out various prevention actions [13 agreements in force].

Posidonia seagrass meadows

The Posidonia seagrass meadows recovery project has received the Accésit 2018 award in the European environment awards for companies, Spanish and European section, in the category of Business and Biodiversity.

RED / ELÉCTRICA / FOREST IN / FIGURES / 2009 - 2018

TREES AND SHRUBS PLANTED
682,093



843 ha
SURFACE AREA RECOVERED

EMISSIONS OFFSET
194,791
t CO₂ eq.



2.126,327 €
INVESTMENT

Relationship with the socio-economic environment

The management of permits finalised in 2018 has enabled amicable agreements to be reached with 88% of the owners affected by the projects.



Red Eléctrica promotes and maintains a permanent relationship with local communities throughout the life cycle of the facilities. For this reason, it has an organisational structure distributed nationwide that facilitates communication and institutional collaboration with public and private administrations and institutions.

In 2018, it is worth noting the signing of 99 collaboration agreements with public and social entities associated

mainly with the execution of socio-economic, environmental, educational and cultural development projects.

In the case of municipalities, the Company fosters engagement and raise awareness regarding the need for facilities and their role within the transmission grid, as well as to promote dialogue that facilitates the development of projects in a sustainable manner and which is accepted by all.



IN 2018

99

Collaboration

AGREEMENTS

signed with public and social entities

The communication policy has focused mainly on the energy transition, the decarbonisation of the economy, the interconnections between electricity systems and energy storage.

PARTICIPATION IN ORGANISATIONS AND ASSOCIATIONS

The Company is part of and actively participates in various national and international organisations and associations, in order to publicise and raise awareness of their position in key aspects of their activity, strengthen the consolidation of alliances and maximise their contribution to the achievement of common goals. In 2018, the Company has formalised its membership with 59 organisations and professional entities.



108
PRESS RELEASES
PUBLISHED
IN 2018

INFORMATION TRANSPARENCY

Raising awareness and disseminating knowledge have continued to be the informative pillars of Red Eléctrica during 2018. For this reason, 108 press releases were issued, 17 meetings and press conferences were held with various media channels and 90 interviews and statements were issued. On the other hand, 250 enquiries from the media on issues related to the Company’s activity were dealt with.



MORE THAN
16,600
FOLLOWERS
ON TWITTER



especially with content on transmission grid projects, sustainability and innovation. The Company has promoted audio-visual content, editing and publishing 14 videos that include both information and testimonials.

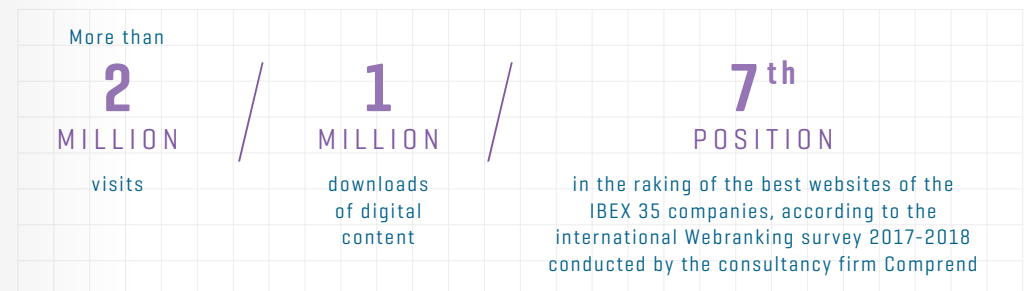
Red Eléctrica now has more than 16,600 followers on Twitter, 3,400 on Facebook, 21,200 on LinkedIn and 894 subscribers on YouTube. In 2018, digital media has played a prominent role, representing 35.5% of the total of publications about the Company.

Red Eléctrica’s communication policy has focused mainly on the **energy transition**, **decarbonisation of the economy**, **international interconnections** and links between the islands, and energy **storage** projects for isolated electricity systems.

Promoting digital channels

Red Eléctrica has continued to promote the Company’s presence in digital media,

C O R P O R A T E / W E B S I T E
I N D I C A T O R S / 2 0 1 8



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**Other information
regarding
the publication**

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This English version is a translation of the original and authentic Spanish text found in the '*Informe de Sostenibilidad Resumen 2018*', originally issued in Spanish. In the event of discrepancy, the Spanish-language version shall prevail.



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



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