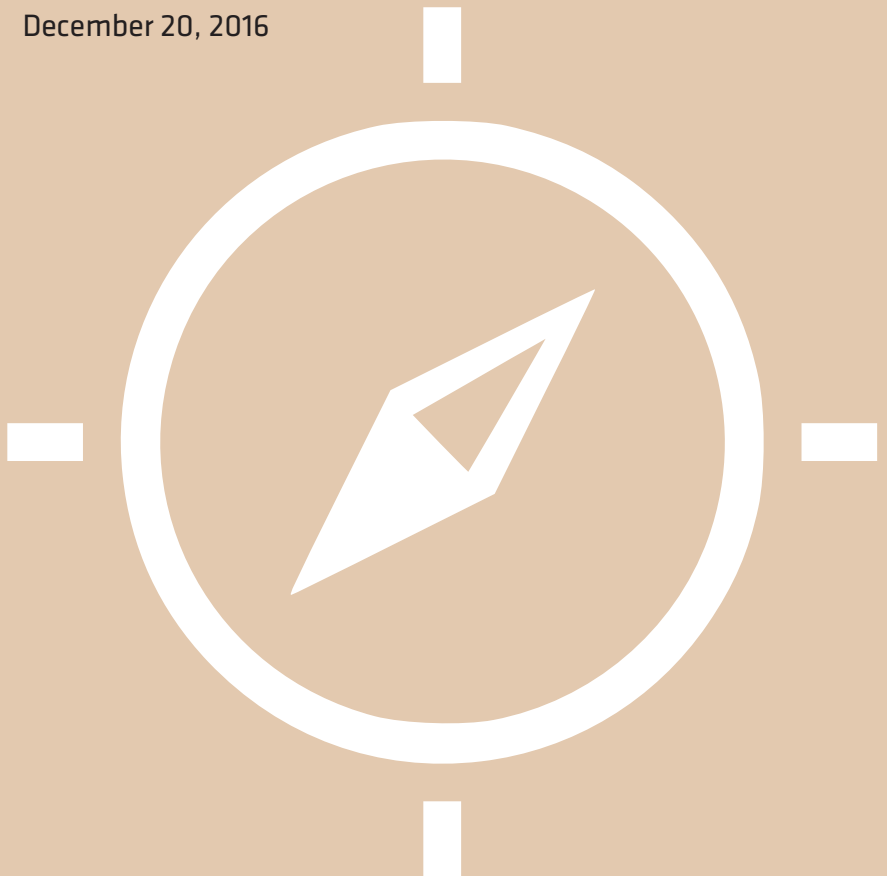




RED
ELÉCTRICA
CORPORACIÓN

Comprehensive Risk Management POLICY

December 20, 2016





Purpose

Establish the principles and guidelines to ensure that risks, which could affect the strategies and objectives of the Red Eléctrica Group, are systematically identified, analysed, assessed, managed and monitored with uniform criteria and within the established risk limits. These principles and guidelines shall lead to the fulfilment of the strategies and objectives of the Red Eléctrica Group.

Scope of aplicability

The Red Eléctrica Group.

Essential principles and guidelines

- Apply the principles of excellence adopted by the Company and incorporate and promote best practices in the field of comprehensive risk management.
- Ensure that risks that may affect the strategies and objectives of the Group are constantly identified, analysed, assessed, managed and controlled.
- Ensure that mitigation actions are carried out on those risks whose value exceeds levels considered acceptable, taking into account their degree of manageability, to bring them in line where possible with the acceptable level. Any risk of an acceptable level shall be monitored and actions taken to maintain it at that level.
- Ensure that risk management is proactive, incorporating controls into the design process that help mitigate risks, implementing contingency plans and establishing coverage for such risks where possible.
- In general, risk management should be performed following coherence criteria between the importance of the risk and the cost and means necessary to reduce it. However, for activities that affect the electricity system, the impact the risks may have on it shall also be considered.
- Ensure that the bodies responsible for controlling risks (Management Committee, Audit Committee and Board of Directors) are duly informed of the situation of the risks.

Criteria regarding acceptable risk level

Acceptable risk level for individual risks

As a general criterion of the risk management model, all risks that threaten the achievement of the strategies and objectives of the Red Eléctrica Group shall achieve a low



impact value, in accordance with the levels of probability and impact established. Those risks that do not have this value shall be subject to actions aimed at achieving said value, to the extent that the risk is manageable and the cost of mitigation measures is justified by the impact that the materialization of the risk could have on the Red Eléctrica Group.

Acceptable overall risk level

Also, as general risk management criteria, the Group's overall aggregate level of risk, determined as a result of the statistical aggregation of individual risks, shall not exceed the overall level established for each of the impact categories contemplated in the Comprehensive Risk Management System: Electrical Supply, Reputation, Core Strategies and Economic Loss.

Types of risks

The types of risks faced by the Red Eléctrica Group in the achievement of its strategies and objectives can be classified into:

Operational risks

- Operational risks that may affect the electricity system. Those risks related to the correct functioning of the Transmission Grid and System Operation and that can have an impact on the electricity system.
- Environmental risks and those related to persons. These risks are mainly related to the surroundings in which the activities are carried out and the safety of the people who work in those environments.
- Comprehensive corporate security risks. Encompasses those risks related to physical security and cybersecurity.
- Other operational risks. Those of an operational nature not contemplated in the aforementioned risk types.

Regulatory risks

- Regulatory risks as Spain's TSO. Those risks related to regulations that affect the Group in its activity as Spanish TSO.
- Other regulatory risks, arising from regulations other than that indicated above. This includes tax risk especially. Tax risks: those produced by the application of the tax regulations, the underlying interpretive complexity or the modifications in the aforementioned regulations and the possible reputational impacts of the management of tax affairs.



Financial and counterparty risks

- Financial and counterparty risks. These correspond to the financial and market risks and those related to defaults by counterparties of their contractual obligations.

Business diversification risks

- Risks associated with the telecommunications business.
- Foreign business risks. Encompasses risks in the activities carried out by the Group in its subsidiaries abroad.

Action guidelines for the management of risks

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

Operational risks

- Process design performed considering effectiveness and efficiency criteria and taking into account controls that mitigate the risks. Processes must be structured through management systems based on international reference standards (good practices) and include periodic verification and improvement.
- Strict compliance with and observance of applicable law.
- Proactive and anticipatory management of physical security and cybersecurity in the scope of the activities of general interest carried out by the Group and the prevention measures regarding the environment and the safety of persons.
- Use of hedging by means of insurance policies for those losses that may materialize.
- Maintain the reliability levels of facilities, requiring, where appropriate, upgrading and improvement actions.

Regulatory risks

- Given the nature of these risks, their management must be fundamentally anticipative and proactive, as well as geared towards collaboration with regulators and taking into account the medium to long term and possible scenarios in an increasingly globalized environment.

In particular, for tax risks:

- The principles and guidelines that establish the framework for action regarding tax matters are those contained in the Tax Strategy of the Red Eléctrica Group.
- A proactive and responsible vision regarding the management of tax risks shall be undertaken and maintained in all the companies that make up the Red Eléctrica Group.



- The analysis of specific risks and the controls necessary to mitigate, manage and monitor such risks shall be made available to those responsible for activities regarding tax matters. In relation to the analysis of the tax risks regarding investments or transactions that are strategic or have a special tax risk due to their significant magnitude or special characteristics, shall be submitted to the Board of Directors for their approval.
- Relationships with the Tax Administrations will be fostered to reduce tax risks and prevent the conducts that may generate them.

Financial and counterparty risks

Financial risks

- Financial risk management shall be aimed at avoiding unwanted variations in the fundamental valuation of the Group, and steered clear of speculative operations.
- The financial structure shall be sufficiently diversified regarding financing sources and maturity terms, so as to minimize exposure to liquidity risk.
- Coverage of interest rate risk will enable to reduce the impact of this risk in the Group.
- Coverage of currency exchange rate changes shall consider activities and supplies linked to the different currencies.

Market risks

- Limit the impact of significant fluctuations in the prices of raw materials through mechanisms considered most suitable for each case and according to the impact on the total cost of the project.

Counterparty risks

- These are risks related to companies or entities with which the Group has business, financial, or other relations and that could possibly not fulfil their obligations.
- The management of these risks shall be performed mainly by incorporating control elements that reduce or delimit the risk:
 - For financial counterparties: approval of lists of counterparties, periodic review of these lists, limits on contracting of operations depending on the terms of payment, amount, counterparty, and any other instrument that is considered appropriate to eliminate or mitigate counterparty risk.
 - For commercial counterparties: definition of processes that ensure over time that suppliers meet the requirements set out by the Group, and avoid dependence on a single supplier, taking action to facilitate competition.



Risks regarding business diversification

- Assessment of risks which may significantly affect the evolution of the telecommunications and foreign business: regulatory, economic cycle, competition, evolution of the sector, technological evolution, country evolution, etc.
- The management of these risks shall correspond to each of the companies that form the Group, such companies will have the necessary help from the corporate units that can support their management.

Risk management information and control systems

Suitable information and control systems shall be provided for comprehensive risk management to ensure compliance with this policy, and its application will be determined in the corresponding general procedure.

This **Comprehensive Risk Management Policy** was approved by the Board of Directors on 20 December, 2016.