



LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER



KEY PERFORMANCE INDICATORS



01. THE COMPANY



02. STRATEGY

03. GOVERNANCE



GOVERNANCE

03

Connected to ethics, integrity, transparency and good governance



04. MANAGEMENT APPROACH



05. SUSTAINABLE ENERGY



06. CREATION OF VALUE



07. EMPLOYEES



08. SOCIETY



09. DIALOGUE WITH STAKEHOLDERS



10. THE ENVIRONMENT



ANNEXES





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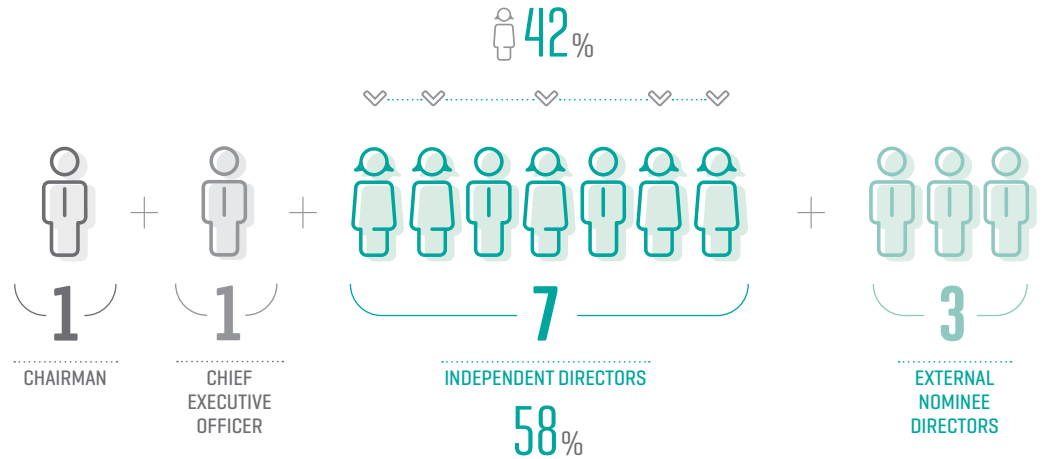
GOVERNANCE STRUCTURE OF THE COMPANY [G4-34, G4-38]



GENERAL SHAREHOLDERS' MEETING



Board of Directors AS AT 31 DECEMBER 2015



Appointments and Remuneration Committee

CHAIRWOMAN
FEMALE LEAD INDEPENDENT DIRECTOR



Audit Committee

CHAIRMAN
INDEPENDENT DIRECTOR



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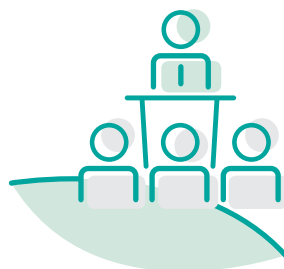
Good governance

From the outset, Red Eléctrica has maintained a constant and firm commitment to adopting best corporate governance practices.

This is made possible not only by complying with the applicable legal regulations and the most widespread national and international recommendations on the subject, but also by voluntarily implementing a series of measures and initiatives that are targeted at the core of the most important issues regarding good governance of the Company, and which most concern and are demanded by shareholders, investors and the markets.

Noteworthy actions in 2015

- Separation of the positions of Chairman of the Board and Chief Executive Officer (CEO).
- Approval by the Shareholders' Meeting of the remuneration policy for board members for a period of 3 years.
- Consolidation of the position of leadership of Red Eléctrica in the IBEX 35 in relation to gender diversity on the Board of Directors.
- Reincorporation of Red Eléctrica into the Dow Jones Sustainability Indexes (DJSI) with a high score regarding corporate governance.
- Design and implementation of dissemination and communication actions for stakeholders regarding corporate governance.
- Adaptation of the corporate regulations to the new legislation regarding corporate governance.



Internal governance regulations 31st December 2015

- Code of Ethics.
- Corporate By-laws.
- Regulations of the General Shareholders' Meeting.
- Regulations of the Board of Directors.
- Internal Code of Conduct on the Securities Market.
- Procedure on proxies, voting and information by remote means.
- Operating Rules of the Shareholder Electronic Forum.
- Succession Plan for the Chairman of the Company.
- Corporate Governance Policy.

REMUNERATION POLICY FOR BOARD MEMBERS



APPROVED FOR
A PERIOD OF
**THREE
YEARS**

By the
*Ordinary General
Shareholders'
Meeting 2015*



DJSI

Reincorporation in 2015 into the Dow Jones Sustainability Index, achieving a high score regarding corporate governance.

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CORPORATE SHAREHOLDING STRUCTURE

As at 31st December 2015, the Company's share capital was comprised of 135,270,000 fully subscribed and paid-up shares belonging to a single class and series, each with a par value of two euros, represented by book entries and listed on the four Spanish stock exchanges.

The entry into force of Law 17/2007, of 4 July, introduced a series of legal limitations on participation and voting rights applicable to the Company's shareholders, with the aim of guaranteeing the independence of the Company vis-a-vis all other electricity sector activities and agents.

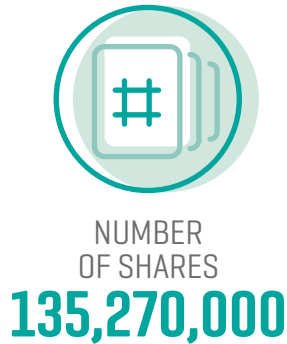
In this regard, the following limits were established:

- Any individual or legal entity may hold shares in the Company, provided that the sum of their direct and indirect interests in the Company's capital does not exceed 5% of the capital and they

do not hold more than 3% of the voting rights.

- Parties that engage in activities in the electricity sector, and those individuals or legal entities that directly or indirectly hold more than 5% of its capital, may not exercise more than 1% of the voting rights in the Company.
- The special regime for the State Industrial Holding Company (SEPI) is maintained, whereby it must hold at least ten percent (10%) of the share capital in all cases.

In 2015, the equity of the Company was comprised of a 20% shareholding owned by SEPI, with the remaining 80% being free float.



RED ELÉCTRICA SHAREHOLDING

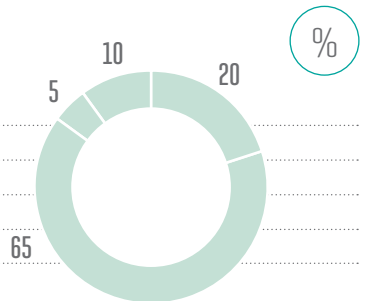


20%
OWNED BY SEPI
80%
FREE FLOAT

SHAREHOLDER STRUCTURE [G4-EC4]

20	SEPI
65	Foreign Institutions
5	Spanish Institutions
10	Minority Shareholders

SEPI: State Owned Industrial Holding Company.





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GENERAL SHAREHOLDERS' MEETING

The General Shareholders' Meeting represents all of the shareholders, and exercises the duties assigned to it as the governance body of the Company. The rules on the organisation and functioning of the General Shareholders' Meeting are set out in the Corporate By-laws (Articles 11 through 18 inclusive) and in the Regulations of the General Shareholders' Meeting.

Guarantees and rights of attendance

These are regulated in Red Eléctrica's Corporate By-laws and in the Regulations of the General Shareholders' Meeting. The most relevant aspects related to the rights of attendance, representation and the right to information are the following:

- No minimum number of shares required to attend the Meeting.
- Representation at the Meeting by any person, without having to be a shareholder.
- Separate voting on each matter submitted for approval at the Meeting.

AVERAGE PERCENTAGE OF VOTES



92.1 %

IN FAVOUR OF THE APPROVAL OF AGREEMENTS

In the Annual Ordinary General Shareholders' Meeting 2015



In the 'General Shareholders' Meeting' subsection of the Corporate Governance section of the corporate website.

- External audit of the management processes of the Ordinary General Shareholders' Meeting.

- Vote certification.

Transparency and participation

The Company pays special attention to the right to information, as reflected in Article 15 of the Corporate By-laws and in the Regulations of the General Shareholders' Meeting, which also facilitates the maximum participation of shareholders. Some of the key mechanisms are:

- Implementation of the electronic voting system at the General Shareholders' Meeting since 2005.
- Section on the corporate website with complete information regarding the Meeting.

PERCENTAGE OF ATTENDEES AT THE

ORDINARY GENERAL SHAREHOLDERS' MEETING



2015	57.3
2014	56.1
2013	57.6
2012	61.9
2011	66.1

% over share capital.

- Live broadcast of the Meeting via Internet, with simultaneous translation in English and sign language in Spanish.
- Shareholders' Electronic Forum.
- Dissemination via social networks.
- Shareholders and investors office.





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BOARD OF DIRECTORS [G4-38]

The Board of Directors

administers, manages and represents the Company, without prejudice to the powers that correspond to the General Shareholders' Meeting. It carries out its activity according to the rules of organisation and operation contained in **the Corporate By-laws** and **the Regulations of the Board**.

The responsibilities of the Board of Directors can be summarised as follows:

- Approval of the general policies and strategies of the Company and the Group.
- Decisions on the remuneration of board members, financial reporting, strategic investments (except those that correspond to the General Meeting), the creation or participation in special purpose entities or those registered in tax havens and authorisation of related-party transactions.

- Annual assessment of the quality and efficiency of the Board and the performance of its Committees.

Balance of powers

Red Eléctrica establishes in its Corporate Governance Policy the essential principle to preserve an adequate balance and proportionality in the powers inherent to the Board of Directors' structure and composition, by adopting the necessary measures to enable action with unity of purpose and impartiality, pursuing the interest of the Company and its shareholders, as well as the sustainability of the Company.

Separation of the positions of the Chairman of the Board of Directors and the Chief Executive Officer (CEO) [G4-39]

Responding to the commitment undertaken by the Company at the General Shareholders' Meeting held in April 2012, and its commitment to best international practices in corporate governance, the Board of Directors of Red Eléctrica submitted the separation of the positions of the Chairman of the Board and the CEO of the Company, as well as the appointment of Juan Lasala Bernad as executive



SEPARATION OF POSITIONS

In 2015, the separation of the positions of the Chairman of the Board and the Chief Executive Officer was concluded.

board member, for approval of the General Shareholders' Meeting at extraordinary session held on 17 July 2015 and convened solely for this purpose. Both proposals received a favourable vote of 99% of shareholders, with an attendance figure of 58%. The Board of Directors at its meeting on 28 July 2015, appointed Juan Lasala Bernad as the new CEO of the Company.

DIVERSITY ON THE BOARD

FEMALE BOARD MEMBERS

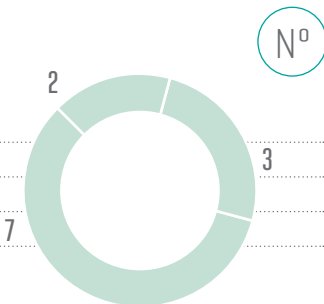
Year	Percentage (%)
2015	41.7
2014	45.5
2013	36.4
IBEX 35 AVERAGE [1]	13.5

[1] Source: CNMV. 2014 data.

REDUCED AND BALANCED BOARD

NUMBER AND TYPE OF DIRECTOR

- 2 Executive
- 3 External nominee directors
- 7 Independent directors



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A transition period has been established that will culminate at the Annual Ordinary General Shareholders' Meeting in 2016, with the full separation of the duties between the Chairman of the Board and the Chief Executive Officer. As of said Meeting, the Chairman of the Board of Directors shall be attributed exclusively the responsibilities inherent to said position.

Until the Annual Ordinary General Shareholders' Meeting 2016, the Chairman shall maintain his current executive powers, focusing his efforts on managing, supporting and fostering the transfer of executive powers to the new CEO in order for said transfer to take place in a rational and organised manner during the transition phase. Therefore, the CEO will take on executive duties as of the date of his appointment.

Moreover, the figure of the **independent lead director** created in 2013 remains unchanged. This figure along with the responsibilities assigned to it, is recognised by shareholders and proxy advisors as an effective corporate governance practice.

BOARD
OF DIRECTORS

WOMEN



42

%

LEADERS
IN THE IBEX 35*In gender
diversity*

THE DOCUMENTATION

concerning the outcome of the Extraordinary General Shareholders' Meeting 17 July 2015 can be found in the 'Corporate Governance' section of the corporate website: www.ree.es.

The process for the **separation of powers vested in the Chairman and CEO** will culminate in the Ordinary General Shareholders' Meeting 2016.

AUDIT COMMITTEE

The **Audit Committee** is assigned, among other functions, those of providing support to the Board in its role as monitor of the process for the drafting of financial information, internal control of the Company and independence of the external auditor. It also monitors compliance with the legal provisions and internal regulations and those relating to the shareholders of the Company along with those powers which the Board of Directors expressly attributes to said Committee.

During 2015, the Committee held 11 meetings, with no absences or delegation of powers by its members having been registered.

APPOINTMENTS
AND REMUNERATION
COMMITTEE

This **Committee** has powers assigned to it regarding the appointment and removal of board members and senior executives, their remuneration, their fulfilment of their duties of administrators and their respect for the principles and rules of corporate governance and the Corporate Responsibility Policy. In addition, on an annual basis, it prepares a specific report on gender diversity that is submitted to the Board for their approval.

During 2015, the Committee held 14 meetings, with no absences or delegation of powers by its members having been registered.

BOARD OF DIRECTORS

AS AT 31st DECEMBER 2015

EXECUTIVE CHAIRMAN

José Folgado Blanco



CHIEF EXECUTIVE OFFICER

Juan Lasala Bernad



EXTERNAL NOMINEE DIRECTORS (SEPI)



Fernando Fernández Méndez de Andés
Member of the Audit Committee



Santiago Lanzuela Marina
Member of the Audit Committee



José Ángel Partearroyo Martín
Member of the Appointments and Remuneration Committee [1]

GENERAL COUNSEL AND SECRETARY OF THE BOARD



Rafael García de Diego
Non-Board Director

EXTERNAL INDEPENDENT DIRECTORS



Mª Ángeles Amador Millán
Member of the Appointments and Remuneration Committee



Paloma Sendín de Cáceres
Member of the Audit Committee



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



María José García Beato
Member of the Appointments and Remuneration Committee



Socorro Fernández Larrea
Member of the Appointments and Remuneration Committee



Antonio Gómez Ciria
Member of the Audit Committee



José Luis Feito Higuera
Chairman of the Audit Committee



On the structure and composition of the Board of Directors in the Annual Corporate Governance Report 2015 in the 'Corporate Governance' section of the corporate website.

[1] Appointed as member of the Appointments and Remuneration Committee on 26/01/16.



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DELEGATION OF ECONOMIC, SOCIAL AND ENVIRONMENTAL MATTERS [G4-34, G4-35, G4-36, G4-42]

The policy of the Board is to delegate the general management of the Company and of Red Eléctrica de España, S.A.U., to the executive bodies and the management team of the Company and of Red Eléctrica de Spain, S.A.U., and focuses its activity on the general supervision and approval of the essential guidelines for action.

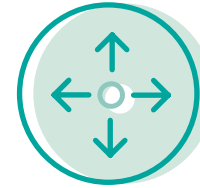
On this basis, the Corporate Economics and Finance Division is conferred overall responsibility for economic matters, while responsibilities regarding social and environmental issues are distributed among the Assistant Corporate Director to the CEO and the areas responsible for Corporate Resources, Corporate Management of Sustainability, Innovation and Institutional Coordination.

The directors of these divisions are part of the Executive Committee, chaired by the Chief Executive Officer, as well as the Management Committee, headed by the Chairman of the Board, which ensure dialogue with the Board of Directors. In addition, they are permanently available to the Board to report on matters within the scope of their responsibilities.

DIALOGUE BETWEEN STAKEHOLDERS AND THE HIGHEST GOVERNANCE BODY [G4-37, G4-49, G4-50]

One of the principles underlying the Corporate Governance Policy of Red Eléctrica and that serves as a benchmark for the performance of the Company in its relations with its stakeholders is: to consolidate, develop and nurture symmetrical mechanisms of dialogue and engagement with shareholders, investors and key stakeholders to improve relationships, increase commitment and strengthen their confidence.

BOARD OF DIRECTORS



SUPERVISION AND APPROVAL OF ESSENTIAL GUIDELINES

Delegates the general management to executive bodies and the management team



STAKEHOLDERS

Red Eléctrica, as part of the Corporate Governance Policy, encourages dialogue with shareholders, investors and key stakeholders in order to improve relations and foster their commitment and trust.

In application of this principle, Red Eléctrica strives to fulfil the demands of institutional shareholders, given their noteworthy presence in the Company's shareholding, as well as the most relevant proxy advisors and other stakeholders, in order to improve its relationship with them, increase commitment and strengthen their trust, without prejudice to the guarantees of equal treatment enjoyed by other shareholders.

Similarly, in application of this principle, Red Eléctrica undertakes the commitment to provide its shareholders homogeneous and systematised information that communicates the corporate environmental, social and good governance objectives that are part of the Company's social interest.



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Besides the direct communication channels indicated in the Transparency and Participation section, on page 28 of this report, and detailed in the **Annual Corporate Governance Report 2015** and in the **Regulations of the Board** (Articles 42-47), the Board of Directors has access to other consultation mechanisms with stakeholders among which the following are noteworthy:

- Consultation and grievance system of the Code of Ethics.
- Social representation/committees.
- Stakeholder satisfaction reports.
- DÍGAME Service.

During 2015, there have not been any relevant issues regarding said channels that would require submission to the Board. [G4-50]

ANNUAL GENERAL SHAREHOLDERS' MEETING



APPOINTS, REMOVES AND RATIFIES MEMBERS OF THE BOARD OF DIRECTORS



SELECTION OF BOARD MEMBERS

Regulated in the Corporate Bylaws and the Regulations of the Board, and it is the Nomination and Remuneration Committee which adopts the relevant role in the process.

SELECTION OF BOARD DIRECTORS [G4-40]

The system used for the selection, appointment and re-election of members of the Board of Directors is expressly governed by the Corporate By-laws and the Regulations of the Board.

Red Eléctrica's Corporate Governance Policy applies the principle of ensuring that appropriate procedures exist to select Board directors, guaranteeing a reasonable balance and diversity within the Board of Directors in order to adequately perform its tasks.

Moreover, there is a general matrix of competencies for the evaluation of candidates participating in the selection process. The procedure takes into account any competences, experience, professionalism, suitability, gender, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at all times, and the Appointments and Remuneration Committee plays a relevant role in the process.

The appointment and removal of directors and the ratification, where appropriate, of the appointments previously carried out by co-optation, corresponds to the General Shareholders' Meeting.

CONFLICT OF INTERESTS [G4-41]

Regarding the Board members, Article 32 of the Regulations of the Board establishes the possible conflict of interests and procedures to be followed in such conflicts. Furthermore, the Corporate Governance Annual Report 2015 details the mechanisms put in place to detect and resolve possible conflicts of interests between Red Eléctrica and its Board directors, managers and relevant shareholders.

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ASSESSMENT OF THE COMPETENCIES AND PERFORMANCE OF THE BOARD (G4-43, G4-44)

For years now, Red Eléctrica has been applying the principle of conducting an annual assessment of the operation and performance of the Board of Directors, the Chairman of the Board and Chief Executive Officer of the Company and the Board's Committees, ensuring that support is received from independent external advisors. The process is carried

out under the management of the Appointments and Remuneration Committee in coordination with the lead independent director, and a summary of its main conclusions is voluntarily included in the Annual Corporate Governance Report.

In terms of knowledge development, Article 24 of the Regulations of the Board of Red Eléctrica establishes that the Company will have an information programme that provides new directors sufficient knowledge about the Company and its corporate governance rules, and shall also offer programmes for directors to update their knowledge when circumstances deem it appropriate.

Red Eléctrica maintains a **Board remuneration policy based on moderation** and which is incentive in nature, but its total amount does not condition the independence of the board member.

Periodically, internal information programmes on national and international trends in corporate governance may be established.

One of the tools that has contributed to increasing the efficiency of the Board and its Committees has been the Intranet of the Board Directors, in which relevant information is published, such as the meeting minutes of the Board and its Committees, as well as corporate information of interest regarding economic, social and environmental matters, among other things.

REMUNERATION OF THE BOARD (G4-51, G4-52, G4-53)

The remuneration of the Board was approved by a majority at the Annual Ordinary General Shareholders' Meeting 2015. Regarding the remuneration of the Board of Directors for the year 2015, the concepts and their amounts have remained the same as in 2014.

BOARD OF DIRECTORS REMUNERATION



FIXED REMUNERATION

IS ESTABLISHED
COMPARED TO
THE VARIABLE
REMUNERATION
OF EXECUTIVE
BOARD MEMBERS

.....
In 2015



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Principles of the remuneration policy

The Remuneration Policy of Board members, approved by the Annual Ordinary General Shareholders' Meeting held on 15 April 2015, is based on the following general principles:

- Balance and moderation.
- Alignment with practices demanded by shareholders and investors.
- Transparency.
- Voluntary submission of any decision regarding remuneration for approval of the General Shareholders' Meeting.
- Alignment with the remuneration established in comparable companies.

Regarding the remuneration of executive board members in 2015, the following principles have been established:

- Alignment of the remuneration policy for executive board members with company strategy.
- Maintaining a reasonable balance between the various components of fixed and variable remuneration reflecting adequate risk-taking combined with the achievement of defined objectives linked to sustainable value creation.
- Among the objectives linked to variable remuneration qualitative metrics related to corporate responsibility projects [Environmental, Social and Governance - ESG] of the Red Eléctrica Group are included.

Other principles applicable to the remuneration of the members of the Board of Directors are those:

- Related to effective dedication.
- Linked to the responsibility and the development of their duties as board members.
- Regarding the absence of variable remuneration components in the interest of its total independence from the remuneration of executive board members and the management team.
- Incentive in nature, but its total amount does not condition the independence of the board.

Detailed information regarding the remuneration of the Board can be found in the Annual Report on the Remuneration of Board Members, the proposal to amend the remuneration policy for Board members and the proposed resolutions on the annual remuneration of the Board of Directors for 2016. These will be submitted for approval by the Ordinary General Shareholders' Meeting of Red Eléctrica to be held in 2016, as separate items on the agenda. All this information is available in the 'Corporate Governance' section of the corporate website.

BOARD MEMBERS AND MANAGEMENT INCORPORATES ESG CRITERIA



INCORPORATES
ESG
CRITERIA
Environmental, social and corporate governance



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Risk management [G4-14]

The Red Eléctrica Group has a Comprehensive Risk Management System established whose objective is to ensure that the risks, which could affect the strategies and objectives of the Company, are systematically identified, assessed, managed and controlled with uniform criteria and within the established risk limits, so as to facilitate the fulfilment of the Group's strategies and objectives.

COMPREHENSIVE RISK MANAGEMENT POLICY

This system has a Comprehensive Risk Management Policy and a General Procedure for the comprehensive control and management of risks, approved respectively by the Board of Directors and the Management Committee, which are based on the Comprehensive Framework for Corporate Risk Management COSO II [Committee of Sponsoring Organisations of the Treadway Commission]. In addition, the comprehensive risk management system conforms to the ISO 31000 standard on principles and guidelines on risk management.

In the Risk Policy **different categories of risk are identified**, their acceptable level is set and guidelines are established for their management.

The Risk Policy identifies the different risk categories, defines the risk level that the Company considers acceptable and sets out the action guidelines to manage and mitigate said risks. In September 2015, the Policy for the control and management of tax risks was integrated into this policy, incorporating action guidelines for the management and mitigation of these risks.

This policy is fully aligned with the Strategic Plan of the Group and is available on the corporate website in the 'Corporate Governance' section.

PROCEDURE FOR THE COMPREHENSIVE MANAGEMENT AND CONTROL OF RISKS

This procedure regulates the process of identification, assessment and management of significant risks which the Group faces. This process is undertaken in order to ensure that different

COMPREHENSIVE RISK MANAGEMENT SYSTEM



ACCORDING TO THE **ISO 31000** STANDARD

On principles and guidelines regarding risk management



IN 2015

the tax risks control management Policy was incorporated into the comprehensive risk management system in line with the Strategic Plan of the Company.



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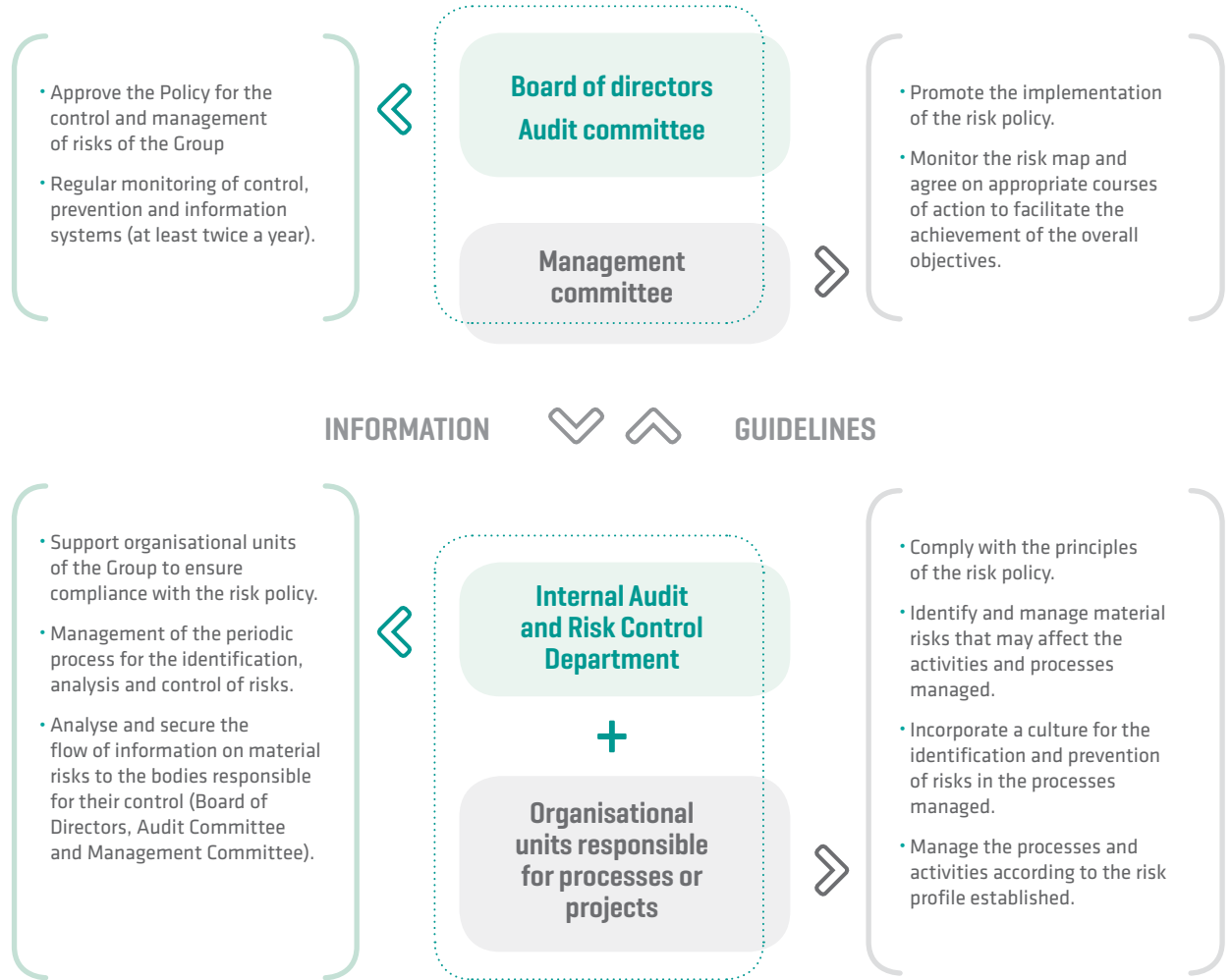
levels of responsibility of the Group understand and appreciate the risks that threaten the activities, processes and projects, and that their management takes them into account, and is carried out within the set risk tolerance limits.

ORGANISATIONAL STRUCTURE

The Risk Policy and Procedure define the different responsibilities of the governing bodies and those of each of the organisational units, as well as the flow of information and the activities to be undertaken by the various bodies [see organisational chart].

The risk management system is comprehensive, to the extent that all units of the Group and the different governing bodies participate in it, within a systematised management process, in accordance with the guidelines and criteria established in the Procedure and Policy for comprehensive risk management and control.

RISK MANAGEMENT ORGANISATIONAL DIAGRAM [G4-45, G4-46, G4-47]





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MANAGEMENT SYSTEM [G4-2]

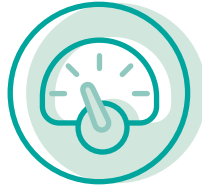
The risk management system of the Red Eléctrica Group defines a methodology for determining the level of acceptable risk. This level of acceptable risk [or risk tolerance] is established both at an individual level, for each risk, and globally.

Acceptable risk at an individual level

Risk assessment is performed based on two parameters: the probability of the risk occurring and the impact on the Company should it materialise.

The probability of occurrence is classified into four levels according to a specific probability distribution by type of risk: low, medium, high and very high.

RISK LEVEL MEASUREMENT PARAMETERS



PROBABILITY OF OCCURANCE AND IMPACT

That determine the level of risk



RISK ASSESSMENT

The risks are assessed in terms of impact on the electricity supply, strategies, reputation and the income statement.

As for the impact, risks are assessed in terms of the effect their materialisation can have on four key business elements:

- **The electricity supply.** This is measured by the Energy Not Supplied [ENS] that would result in the possible event taking place.
- **The achievement of the essential strategies.** Degree of impact on the achievement of the essential strategies.
- **Reputation.** Degree of impact on the reputation [geographical scope, duration and reparability].
- **The income statement.** Effect on the income before corporate tax.

For each of these four elements, the Red Eléctrica Group has defined a table with five levels of effect or impact. In the case of the electricity supply and the income statement, quantification is quantitative [MWh and euros], while in the case of the essential strategies and reputation this is qualitative.

The combination of these two parameters (probability and impact) automatically determines the risk level, this may be low, medium or high.

The tolerance level defined by the Red Eléctrica Group only considers admissible those risks whose assessment, according to the above matrix, is considered of low value. According to the risk policy, any risk that exceeds this permissible level, should be the target of actions to achieve said value, in as far as the risk be manageable and the management costs are proportionate to the effect of the risk avoided.

Acceptable risk at a global level

During 2015, work continued on determining the overall level of acceptable risk that the Group is willing to accept for each of the four types of impacts already mentioned: electricity supply, Group strategies, reputation and the income statement.



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Also, an aggregation methodology is being developed for determining the level of aggregate risk, based on the assessment of the individual risks.

This level of acceptable risk will be submitted to different contrast tests before being presented to Board of Directors for approval.

RESPONSE AND MONITORING PLANS

In the process of identification, analysis, assessment and control of risks, referred to previously, the actions required are established to reduce the degree of risk to an acceptable level.

For the monitoring of risks, the current risk management system includes the monitoring of over 500 action plans that seek to reduce the level of risk, and more than 300 indicators to monitor their progress.

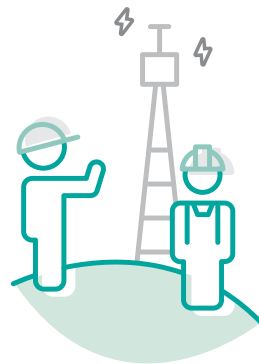
Moreover, the processes of the Group incorporate elements to mitigate or reduce the related risks. These processes have been integrated into management

RISK MONITORING



MORE THAN
500
ACTION PLANS AND
300
CONTROL INDICATORS

Regarding its evolution



systems structured according to international standards (ISO 9001, ISO 14001 and OHSAS 18001, among others), which are submitted to internal and systematic external audits, adaptation of design and compliance, and that incorporate control aspects corresponding to the objectives to be met.

In addition, Red Eléctrica has several contingency plans that regulate crisis situations that could occur in the case of electrical incidents (to ensure security of supply), or any other incident that may affect the environment, people, the operational aspects

of the Company, the availability of its systems, business results, or any other events that could have an impact on the Company's reputation.

Complementary to that already stated, noteworthy is that in 2007, Red Eléctrica initiated a project for the alignment, review and improvement of its System of Internal Control over Financial Reporting (ICFR), with the basic aim of obtaining improvements in efficiency and the security of processes for the drafting of economic and financial information of the Company, adopting in a voluntary and early manner, international best practices.

The process of **identification, analysis, assessment and control of risks** establishes the actions necessary to reduce the degree of risk to an acceptable level.



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RISK STRUCTURE [G4-2]

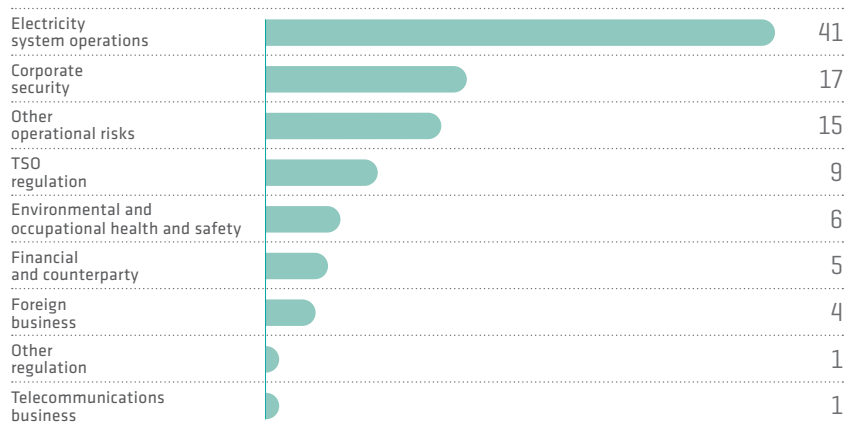
The principal business of the Red Eléctrica Group is the transmission of electricity and operation of the electricity system in Spain, which are regulated activities, in so far as they are critical to the security and continuity of the electricity supply and are carried out on under a regime of exclusivity.

This classification as a regulated activity affects both the setting of revenues and the environment and conditions in which it has to undertake its principal activities.

In this context it is important to highlight the following due to their importance and relevance: the regulatory and operational risks, as well as others which are common to the undertaking of economic and business activities.



RISK STRUCTURE



Risk types of the Red Eléctrica Group

REGULATORY RISKS

Risks derived from possible changes to the legal framework regulating the activity, which could affect its revenues and/or costs, either directly or through the introduction of new requirements and conditions for the carrying out of this activity.

- **Regulation as Spanish TSO.**
- **Other regulation:** tax risk and environmental regulation.

OPERATIONAL RISKS

Risks caused by the failure of processes, personnel, equipment or internal systems or due to external events. The criticality of the functions performed by the Red Eléctrica Group make it possible for these risks to have widespread social and economic importance.

- **Operational:** that may affect the proper functioning of the transmission grid and the operation of the electricity system.
- **Corporate security:** security of facilities and cybersecurity.
- **Environment and occupational health and safety of people:** respect for the natural environment and the special importance of security and safety in the activities undertaken.
- **Other operational risks:** that may affect other processes of the Group. In this category criminal risks are considered.

FINANCIAL AND COUNTERPARTY RISKS

Risks arising from capital management and debt transactions made through companies of the Group. This category also includes market risks and liquidity.

- **Increased cost of equipment and raw materials.**
- **Increased interest rates and changes in exchange rates.**
- **Conditions of access to financial markets.**
- **Coverage of accidents.**

OTHER RISKS

Risks arising from the relevance acquired by new businesses developed by the Red Eléctrica Group as of 2015.

- **Risks associated with the telecommunications business relating to the management and operation of the dark fibre network.**
- **Risks from foreign business concerning investments in Peru and Chile.**



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MATERIALIZED RISKS IN 2015

The facilities of the transmission grid are exposed, permanently, to operational events that might affect the continuity and security of the electricity supply.

During 2015, there were events whose consequences represented power outages of minor importance. In general, these events were caused by third parties and by extreme weather conditions.

Given these events, the control systems worked properly, as evidenced by the peninsular transmission grid availability rate which in 2015 was 97.93% [provisional figure], close to the rate [98.2%] obtained in 2014.

The Company also has insurance policies that limit the potential impact of these events on the income statement.

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OBJECTIVES 2015

- Improved definition of acceptable risk level globally and development of a new dashboard of risk indicators.
- Updating the analysis of criminal risks of the legal entity.
- Identification, analysis and risk assessment of the construction and management of pumped-storage facilities in the Canary Islands granted by Law to Red Eléctrica.

RESULTS 2015

- Progress in determining the global level of acceptable risk of the Red Eléctrica Group.
- Updating the analysis and assessment of criminal risks and their inclusion in the risk map of the Group.
- Identification, analysis and assessment of the risks associated with the construction and management of the Chira-Soria pumped-storage hydro power station and its incorporation into the risk map.
- The bottom-up analysis of risks has been complemented with a top-down analysis carried out by the Senior Management of the Group.
- Progress in the development of a methodology to determine the level of aggregate risk.
- Progress in improving the assessment of the degree of effectiveness of the action plans.

CHALLENGES 2016

- Improvement of communication mechanisms of new risks and relevant events.
- Development of the risk analysis methodology in the management of projects.
- Adaptation of risk management processes to the requirements of the new versions of the ISO 9001 and 14001 standards.



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Main Risks of the Red Eléctrica Group at present [G4-45]

RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
REGULATORY RISKS AS TSO		
RISK OF CHANGES TO THE ELECTRICITY SYSTEM REGULATION	<ul style="list-style-type: none"> Risk of regulatory changes occurring that could have a negative impact on the activities related to transmission and system operation. 	<ul style="list-style-type: none"> Dialogue with the Regulator. Presentation of proposals to the Regulator.
OTHER REGULATORY RISKS		
OTHER REGULATORY RISKS	<ul style="list-style-type: none"> Tax risks. Changes in environmental regulation. 	<ul style="list-style-type: none"> Adherence to the Code of Good Tax Practices. Setting up of the tax strategy of the Red Eléctrica Group. Incorporation of Tax Risk Policy into the Comprehensive Risk Management Policy of the Group. Adaptation to the legislation related to climate change.
OPERATIONAL RISK OF THE ELECTRICITY SYSTEM		
RISK RELATED TO POWER OUTAGES AND THE EVACUATION OF GENERATION	<ul style="list-style-type: none"> Risk of a breakdown/fault occurring in the facilities that may significantly impact on the electricity system, causing power outages on the Spanish peninsula or the islands. 	<ul style="list-style-type: none"> Emergency equipment and procedures. Periodic inspections of equipment and systems. Preventive and predictive maintenance programmes. Renovation and improvement plans for facilities. Improvement of grid meshing and increase in the construction of facilities to deal with the Electricity Infrastructures Plan approved by the State. Contracting insurance policies to cover possible damages that can be derived from an incident. Contingency plans.
RISKS ASSOCIATED WITH THE OPERATION OF THE SYSTEM	<ul style="list-style-type: none"> Human errors in the coordination or configuration of equipment. Malfunction of telecommunications. Failure of computer systems that support the activity. 	<ul style="list-style-type: none"> Strengthening of the transmission grid in certain areas where the situation is precarious. Power service restoration plans. Renovation and improvement of facilities plan. Improvement of the telecommunication systems. Implementation of security mechanisms in the IT information systems used. Ongoing training of operators. Contingency plans.
CORPORATE SECURITY RISKS		
RISKS THAT MAY AFFECT THE SECURITY OF FACILITIES	<ul style="list-style-type: none"> Impact on security in facilities (substations, control centres, buildings, etc.) such as vandalism, sabotage, theft, terrorism, etc. 	<ul style="list-style-type: none"> Security systems in facilities. Permanent vigilance services. Contact with the Civil Guard and National Police. Corporate Security Management Model. Consultation and collaboration with the CNPIC (The National Centre for Critical Infrastructure Protection). Operator Security Plan (OSP) and Specific Protection Plans (SPP).

[Continued on next page]



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Main Risks of the Red Eléctrica Group at present (G4-45)

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RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
RISK RELATED TO CYBERSECURITY	<ul style="list-style-type: none"> • Non-availability of systems • Unauthorised access to specific IT applications. 	<ul style="list-style-type: none"> • Fire walls and anti-intrusion systems • Antivirus systems • Increase in the security of access requirements • Mechanisms for the detection of incidents • Software updates • Hacking simulations • Training and awareness programmes. • Corporate Security Management Model. • Consultation and collaboration with the CNPIC (The National Centre for Critical Infrastructure Protection). • Development of the Operator Security Plan (OSP) and Specific Protection Plans (SPP). • Action guide in the event of cyber incidents.

RISKS ASSOCIATED TO THE ENVIRONMENT AND THE HEALTH AND SAFETY OF STAFF

RISKS OF IMPACT ON THE ENVIRONMENT	<ul style="list-style-type: none"> • Impact on flora. • Impact on fauna. • Contamination of soil. • Impact on archaeological heritage. • Risk of fires. 	<ul style="list-style-type: none"> • Application of strict environmental criteria in all phases of planning, development and maintenance of facilities. • Environmental supervision of construction works. • Biodiversity strategy and actions. • Development of research projects and fire prevention plans. • Projects for birdlife conservation. • Environmental training courses for field staff. • Environmental awareness of suppliers. • Environmental supervision of construction works. • Implementation of Environmental Work Certification. • Establishment of collaboration agreements in the field of environmental protection with all the Autonomous Communities. • Fire protection plans. • Contingency plans. • Internal environmental audits.
RISKS DERIVED FROM CLIMATE CHANGE (G4-EC2)	<ul style="list-style-type: none"> • Reduction in rainfall. • Increase in temperatures. • Changes in wind currents. • Impacts on structural elements due to wind, ice, electrical discharges (lightning) etc. • Alteration in the properties of the conductors. • Erosion around the foundations of the towers and the towers themselves. 	<ul style="list-style-type: none"> • Climate change strategy. • Voluntary Agreement for the comprehensive management of SF6 in the electricity industry, among the Ministry of Agriculture, Food and Environment, equipment manufacturers (AFBEL), UNESA, REE and waste management companies. • Internal audits of the SF6 management process. • Development of system operation tools (CECRE). • Construction of new transmission lines for the evacuation of renewable energy. • Strengthening of international interconnections. • Development of demand-side management initiatives (interruptibility service, measures to achieve a more efficient consumption profile, and initiatives for the implementation of the electric vehicle). • Development of research and innovation projects: new technologies and technical solutions for efficient system management, new tools for emergency situations, smart demand-side management, energy storage.

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RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
RISKS RELATED TO MANAGEMENT AND EMPLOYEES	<ul style="list-style-type: none"> Lack of motivation and competencies of staff to reach the Company objectives. Fraud and corruption. Workplace accident rate. Adaptation of occupational health and safety risk prevention. 	<ul style="list-style-type: none"> Development programmes for experts and directors. Work-life balance policy and implementation of a management system. Recruitment of young employees with potential. Maintenance and improvement of the structured risk prevention system in accordance with the OHSAS 18001 standard. SA8000, EFR1000 certifications and internal audits. Implementation of the Code of Ethics, the grievance system and audits. Applying the staff appraisal system. Technical Procedures for the organisation of safety. General procedure for accident management and incidents. Operational Group regarding Prevention.
OTHER OPERATIONAL RISKS	<ul style="list-style-type: none"> Failure of the processes associated with certain activities of the Group such as engineering, construction, procurement, human resources, etc. 	<ul style="list-style-type: none"> Controls implemented in each process. Specific action plans. Contingency plans.
FINANCIAL AND COUNTERPARTY RISKS		
RISK OF INCREASED COSTS OF EQUIPMENT AND RAW MATERIALS	<ul style="list-style-type: none"> The control of the price of equipment and raw materials is a key part of the management of the construction and maintenance activities. 	<ul style="list-style-type: none"> Promote competition. Increase normalisation and standardisation. Drafting of turnkey contracts. Use of hedging mechanisms.
RISK OF INCREASE IN THE INTEREST RATES	<ul style="list-style-type: none"> Variations in interest rates that may detract from that contemplated in the Strategic Plans of the Company. 	<ul style="list-style-type: none"> Periodic reviews of the interest rates and their impact on the accounts. Maintenance of the fixed/variable percentages of the financial structure. Development of a financial risk policy and mechanisms for its management and control.
UNFAVOURABLE VARIATIONS IN EXCHANGE RATES	<ul style="list-style-type: none"> Although the part of the business managed in non-euro currencies is not very significant, unfavourable variations in exchange rates may have a negative impact. 	<ul style="list-style-type: none"> Establishing hedging mechanisms for transactions performed in non-euro currencies. Development of a Financial Risk Policy and mechanisms for its management and control.
RISK OF TIGHTENING OF THE CONDITIONS REGARDING THE ACCESS TO FINANCIAL MARKETS	<ul style="list-style-type: none"> Negative development of different macroeconomic variables, affecting financial markets, status of the euro and sovereign debt rating. 	<ul style="list-style-type: none"> Contracting of long-term financing with public funding institutions. Establishment of new financing mechanisms. Monitoring of possible situations that may imply a reduction in the rating of the Company.
INADEQUATE COVERAGE WHEN FACED WITH A CLAIM	<ul style="list-style-type: none"> Insufficient coverage when faced with a significant increase in claims made against the Company. Loss of solvency of the reinsurance company. 	<ul style="list-style-type: none"> Provisioning. Ongoing monitoring of the level of claims. Reinsurance risk.

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Main Risks of the Red Eléctrica Group at present [64-45]

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RISK	DESCRIPTION	MAIN MANAGEMENT ASPECTS
TELECOMMUNICATIONS BUSINESS RISKS		
RISKS THAT CAN AFFECT THE BUSINESS	<ul style="list-style-type: none"> Operational and business risks related to the telecommunications business. 	<ul style="list-style-type: none"> Monitoring the quality of service provided. Monitoring the portfolio of clients.
FOREIGN BUSINESS RISKS		
RISKS TO FOREIGN SUBSIDIARIES	<ul style="list-style-type: none"> Regulatory and operational risks of foreign subsidiaries. 	<ul style="list-style-type: none"> Maintaining good relationships with agencies and organisations where the subsidiaries are located. High quality standards in the services offered. Monitoring of regulatory developments and economic evolution. Monitoring of the projects undertaken by subsidiaries.
RISKS THAT MAY EMERGE IN THE FUTURE		
UNCERTAINTY IN THE DEVELOPMENT OF THE EUROPEAN REGULATORY FRAMEWORK	<ul style="list-style-type: none"> Regulatory changes with an impact on the activities of Red Eléctrica. 	<ul style="list-style-type: none"> Active participation in ENTSO-E. Increased role in international forums. Communication with the European regulator.
MAJOR ENVIRONMENTAL AND SOCIAL DEMANDS IN PROJECTS	<ul style="list-style-type: none"> Delays or increased costs in the execution of projects. 	<ul style="list-style-type: none"> Communication plan of the environmental and social activity. Maintain relationships with relevant institutions.





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Integrity model of the Red Eléctrica Group (G4-DMA, G4-56, G4-57)

Red Eléctrica considers ethics, integrity and transparency as fundamental pillars for the good operation of the business. This involves acting with the utmost integrity in the fulfilment of the obligations and duties entrusted to the Company, as well as in the relationships with and commitments to its stakeholders.

To do this, Red Eléctrica has a number of rules of conduct that establish corporate values and

performance criteria that must be undertaken by all people within the Company in the execution of their professional activities.

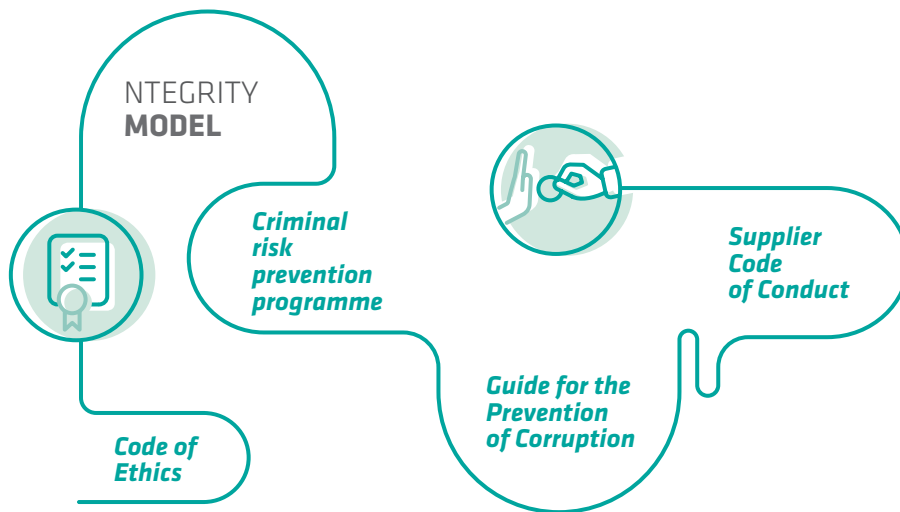
CODE OF ETHICS

The Code of Ethics of the Red Eléctrica Group aims to provide an ethical guide for managers and employees of the companies of the Red Eléctrica Group, setting out the values and commitments that should govern the performance of their activity within the Company.

The current edition of the Code of Ethics of the Red Eléctrica Group was approved by the Board of Directors on 28 May 2013 with the aim of taking on board the requirements of stakeholders and the recommendations of the international organisations of repute in this field, among which the following are noteworthy: United Nations Organisation, the European Union, the Organisation for Economic Cooperation and Development and international organisations such as Transparency International or the ÉTNOR Foundation, amongst others.

Plan to encourage awareness

During 2015, work continued on the execution of the plan for raising awareness regarding ethical management; a plan that was launched in 2013 after the approval of the current edition of the Code of Ethics. Within the framework of this plan, a series of brainstorming sessions and discussions were held in all work centres of the Company, aimed at improving knowledge of the ethics management system.



CODE OF ETHICS RED ELÉCTRICA



THE LATEST EDITION **APPROVED**

Ethics Guide for managers and employees of the Group



RECOGNITION

Maximum score in the Code of Ethics/Compliance/Corruption and Bribery section of the Dow Jones Sustainability Index [DJSI].

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These sessions include the participation of the Ethics Manager and Stakeholder Ombudsman of Red Eléctrica. [G4-S04]

SUPPLIER CODE OF CONDUCT [G4-DMA, G4-S04]

Red Eléctrica has a specific code for its suppliers in which stresses the compliance with respect for human rights, equality and the integration of people with disabilities and supplier compliance with the requirements regarding the environment and occupational health and safety in the procurement of products or services required by the Company, whether they are carried out directly or through other companies.

The figure of the **Ethics Manager** was created to ensure managers and employees were aware of the Code of Ethics, its implementation and the need to comply with it.

WHISTLE BLOWING CHANNEL

CORPORATE WEBSITE



IN 2015

27

ENQUIRIES MADE
TO THE ETHICS
MANAGER

Maximum
resolution period
is 10 days

ETHICS MANAGER

To ensure understanding, implementation and enforcement of the Code of Ethics, Red Eléctrica appointed Rafael Garcia de Diego, General Counsel and Secretary of the Board of Directors, as Ethics Manager and Stakeholder Ombudsman. The responsibilities of the Ethics Manager are the following:

- Resolve enquiries and advise all stakeholders regarding any doubts in relation to the values and commitments contained in the Code of Ethics.
 - Institute proceedings regarding grievances through the verification and investigation of the conduct of those employees or organisational units reported.
 - Develop action plans to resolve the grievances reported and submit them for approval by the Chairman of Red Eléctrica Group or the Chairperson of the Audit Committee if it affects any member of the Management Committee.
 - Keep an updated record on the process [enquiries, grievances, procedures and communications with interested parties].
- Keep claimant abreast on the status and resolution of enquiries or grievances, when required.
 - Draft a periodic report on the review of the reporting system and propose actions to improve the management system.
 - Maintain at all times the confidentiality of the claimant, unless legally required to disclose this information.
 - Carry out the functions assigned under the principles of independence, rigour and fairness.

WHISTLE-BLOWING CHANNEL

[G4-DMA, G4-57, G4-58, G4-HR12, G4-LA16, G4-S011]

To promote the application of the Code of Ethics, Red Eléctrica has a whistle-blowing channel, available on the corporate website, through which enquiries, grievances or suggestions can be conveyed to the Ethics Manager. This channel has been audited and guarantees the confidentiality of those using this channel.

In addition, Red Eléctrica has another channel for reporting non-



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compliance, grievances, enquiries and suggestions regarding ethical matters through its Stakeholder Attention Centre DÍGAME, in order to provide a reporting channel for requests from external stakeholders who are not aware of the whistle-blowing channel. This service will transfer to the Ethics Manager the requests received, preserving their confidentiality.

In 2015, **27 enquiries were received by the Ethics Manager** through the whistle-blowing channel, with a maximum resolution period of 10 days.

Consultations received have referred to the following areas of conduct:

- Responsible monitoring of the management of suppliers.
- Adequate handling of confidential information.
- Protection and use of facilities and equipment of the Organisation.
- Limitation on the acceptance of gifts, loans or invitations.
- Respect, integrity, accountability and transparency within the organisation.

In 2015, three grievances were received regarding compliance with the Code of Ethics, two of which were resolved during the year and one was in the processing stage at year-end 2015. A more accurate account of these grievances can be found in the Annual Executive Report on the Management of the Code of Ethics published in the annex to this report. [\[G4-LA16, G4-S05\]](#)

CRIMINAL RISK PREVENTION

Red Eléctrica has a Criminal Risk Prevention Programme that aims to identify the rules, procedures and tools established within the Group to prevent the breaching of the legal rules that carry criminal implications applicable to the Company and its staff, and to adapt it to the new regulatory environment. Therefore, in addition to the already existing risk control exercised by the Red Eléctrica Group, the scope now incorporates the management and prevention of criminal risks that could affect the Company according to their activity and business sector, in compliance with the Spanish Criminal Code.

CRIMINAL RISK PREVENTION



PROGRAMME APPROVED IN 2011
AND HAS A CONTROL BODY

Prevents non-compliance with legal regulations



DÍGAME ATTENTION CENTRE

Provides access to ethical questions and suggestions from external stakeholders, and passes them to the Ethics Manager for processing whilst maintaining confidentiality.

This programme, approved by the Board of Directors of the Red Eléctrica Group at its meeting on 24 November 2011, has a control body that monitors its compliance and undertakes specific measures to ensure it is adequately updated and implemented. In addition, it regularly reports to the Audit Committee on the actions taken, proposed improvements, updates implemented, agreed measures as well as any other aspect considered relevant in the performance of their duties.

This body is composed of the following members:

- The Ethics Manager.
- A representative of the Internal Audit and Risk Control Department.
- A representative of the Human Resources Organisation and Planning Department.
- A representative of the Legal Department.

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This body reports to the Internal Audit and Risk Control Department, responsible for monitoring compliance of the control measures regarding criminal risk, as well as to the Legal Department.

Also, the Ethics Manager informs the Control and Monitoring Body about grievances received, that may have a possible criminal law implication. This body guarantees the confidentiality of all information received, in the same way as the Ethics Manager does. In 2015, the Ethics Manager received no grievance about infringements related to criminal risks and none of the companies of the Group has been investigated or convicted of infringements related to the criminal risks of the organisation.

Actions 2015 [G4-S04]

- Launch of the new Legal Compliance System.
- Dissemination Programme for criminal risk prevention of the Red Eléctrica Group through the corporate website.
- Criminal Risk Prevention Audit.

PREVENTION OF CORRUPTION



GUIDE APPROVED BY THE BOARD OF DIRECTORS

In 2015

PREVENTION OF CORRUPTION [G4-DMA]

The Code of Ethics and the corresponding management system for queries and grievances, in which aspects related to the fight against corruption are included, are an effective mechanism for the detection and handling of possible cases of corruption and fraud. Governance bodies, employees and suppliers of Red Eléctrica accept the Code of Ethics and, where applicable, the Code of Conduct for suppliers of the organisation as a whole.

In addition, in 2015 the Board of Directors approved the **Guide for the Prevention of corruption** that develops corporate values and

behavioural patterns contained in the Code of Ethics related to the main manifestations of corruption. All people of the Red Eléctrica Group are obliged to know and accept the contents of this guide and review their behaviour based on the principles, commitments and controls established. [G4-S04]

As a complement to the aforementioned, with a specific character, the processes considered susceptible to the risk of corruption and fraud are regularly monitored through internal audits using the risk prevention programmes for fraud and criminal risk prevention as a basis, and in which specific controls regarding these risks are incorporated. In 2015, 100% of the divisions/departments of Red Eléctrica de España have been

All members of the Group are **obliged to know and accept the contents of the Guide** for the prevention of corruption and to act on its principles.



LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER



KEY PERFORMANCE INDICATORS



01. THE COMPANY



02. STRATEGY

03. GOVERNANCE



04. MANAGEMENT APPROACH



05. SUSTAINABLE ENERGY



06. CREATION OF VALUE



07. EMPLOYEES



08. SOCIETY



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The Internal Control over Financial Reporting (ICFR) system includes controls associated to risks regarding the inappropriate use of assets.

audited regarding the various risks related to corruption; no risks were identified in said audits. [G4-S03, G4-S05]

Additionally, the processes of Red Eléctrica are integrated in structured systems in compliance with the international benchmark standards (ISO 9001, ISO 14001 and OHSAS 18001) and their design includes controls to mitigate or reduce the main risks associated thereto.

In addition to these processes, the Company has an Internal Control over Financial Reporting (ICFR) system in place, which includes controls over the risks regarding the inappropriate

use of assets and intentional errors in the financial statements, whose independent assurance report is included in the annex to this Report.

In 2015, in accordance with the guidelines on conduct contained in the Code of Ethics, in which the contribution to political parties or organisations is prohibited, no donations, grants or loans

Actions 2015

- Approval of the Guide for the Prevention of Corruption: zero tolerance.
- Assignment to the unit responsible for the legal compliance of the competencies relating to the application and interpretation of the Guide for the prevention of corruption. Similarly, the appropriate grievances, as a result of possible breaches of the commitments contained within the Guide, may be submitted to the unit in question.

to political parties or political organisations have been provided on behalf of the Group.

HUMAN RIGHTS [G4-DMA]

The activities of Red Eléctrica are carried out in conformance with the principles and guidelines contained in its Corporate Social Responsibility Policy and in a manner compatible with the values and commitments established in the Code of Ethics.

When drafting the Corporate Social Responsibility Policy, Red Eléctrica has kept in mind the OECD Guidelines for Multinational Enterprises, as well as the Tripartite declaration of principles concerning multinational enterprises and social policy drafted by the ILO (International Labour Organisation). In this manner, the Corporate Social Responsibility Policy contains an explicit commitment to Human Rights.

INTERNAL AUDITS 2015



CONDUCTED ON

100

%

OF THE DEPARTMENTS OF REE

No risk was detected related to corruption



LETTER FROM THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER



KEY PERFORMANCE INDICATORS



01. THE COMPANY



02. STRATEGY

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Similarly, the Code of Ethics, which determines the guidelines for behaviour to be followed by all employees, establishes respect for human rights as a binding principle.

It should also be noted that since 2002, Red Eléctrica has been a founding member of the Spanish Network of the UN Global Compact, which implies drafting an annual progress report that sets out and details the actions that represent advances in the Company's commitment to the Ten Principles.

The Company has performed an internal assessment of the degree of alignment of its practices with the U.N. Guiding Principles on Business and Human Rights. In order to delve further into the aspects that were detected in this assessment and may require action, the Company continues to work on developing an action plan.

SPANISH NETWORK OF THE UN GLOBAL COMPACT



RED ELÉCTRICA FOUNDING MEMBER

Since 2002



IN 2015

Red Eléctrica participated in the Human Rights Working Group of the Spanish Network of the UN Global Compact. The goal is to design a practical tool to implement the Guiding principles into the Spanish business fabric.

As an example, in 2015 a project was undertaken aimed at identifying risks from the perspective of corporate responsibility (including aspects related to human rights) associated with supplies, in order to establish the requirements to be fulfilled by the suppliers of Red Eléctrica. In addition, social audits on suppliers have continued to be conducted, through which the degree of compliance with the requirements covered by the Code of Conduct for suppliers is evaluated, among which includes the commitment to fundamental human rights.

In addition, the Company has participated in the Human Rights Working Group and Companies of the Spanish Network of the UN Global Compact, aimed at designing

a practical tool to facilitate the implementation of the Guiding Principles into the Spanish business fabric.

Similarly, the level of performance of Red Eléctrica is audited according to standards that govern aspects related to respect for human rights in business, such as SA8000, e SR10, the EFR (certificates renewed in 2015) and the healthy workplace model, certified for the first time this year.

In order to meet the requirements of the standards, all work centres have to be visited in each certification cycle of three years. Thus, in 2015 the head offices and the building in Palma de Mallorca was audited by AENOR, which means that two of the four workplaces with business activity have been visited (50%), and in two of the eight regional offices (the Balearic Islands zone and the Northern zone), representing 25% of the total. [G4-HR9]