

RED ELÉCTRICA
CORPORACIÓN

Corporate Governance Report 2012



ANNUAL CORPORATE GOVERNANCE REPORT OF RED ELÉCTRICA CORPORACIÓN, S.A.

FISCAL YEAR 2012¹

The Annual Corporate Governance Report (also known as “ACGR”) of RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter also referred to as RED ELÉCTRICA or the Company) for fiscal year 2012 has been structured into a main body comprising four Titles, divided into Chapters.

The Titles refer to the legal framework applicable to RED ELÉCTRICA (Title I), to the main corporate governance aspects and principles at RED ELÉCTRICA (Title II), to the year 2012 at RED ELÉCTRICA (Title III) and to the outlook for RED ELÉCTRICA on Corporate Governance issues (Title IV).

Two Official Annexes have been included: Annex 1 relating to the ACGR format established by Circular 4/2007, of December 27, 2007, of the Spanish National Securities Market Commission (the “CNMV”), and Annex 2 on additional information under Article 61. bis of Securities Market Law 24/1988, of July 28, 1988 (the “LMV”), which was prepared following the instructions notified by the CNMV to listed corporations in December 2011, which remain applicable to the 2012 ACGR.

TITLE I- LEGAL FRAMEWORK APPLICABLE TO RED ELÉCTRICA

CHAPTER I.- EXTERNAL FRAMEWORK

The Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. has been complying in its capacity as a corporation, in accordance with the requirements of the applicable legislation – Article 116 of the Securities Market Law (the “LMV”) introduced by Law 26/2003, known as the Transparency Law – and of its Regulations of the Board of Directors – Article 38 thereof – with the obligation to prepare and approve an ACGR, which is notified to the CNMV as a material event and published on the Company’s website, and which is attached as an Annex to the Company’s annual management report.

¹ Unless another date is expressly indicated in this report, its contents are deemed to refer to December 31, 2012.



The change in the regulating framework in this area, approved in 2011, ratified both the obligation of companies to annually approve an ACGR – Article 61. bis of the Securities Market Law, introduced by Final Provision Five of Sustainable Economy Law 2/2011, of March 4, 2011 (the “LES”) – and the obligation of incorporating the ACGR into the management report, in a separate section – Article 538 of Corporate Enterprises Law (the “LSC”), approved by Legislative Royal Decree 1/2010, of July 2, 2010, as amended by Law 25/2011, of August 1, 2011.

The above-mentioned legal rules have precisely regulated the minimum content of the future ACGR, incorporating new features compared with the previous ACGR format, the structure and minimum content of which were regulated by Ministerial Order ECO 3722/2003, of December 26, 2003, and by Circulars 1/2004 and 4/2007, of December 27, 2007, of the CNMV.

The two official Annexes to this ACGR are based on the above legislation.

On the date of approval of this ACGR, the regulations implementing Article 61.bis LMV had yet to be published, a circumstance which is expected to take place in 2013.

The legal framework affecting various different aspects of the corporate governance of Spanish corporations has been subject to numerous changes in the past three years. This has led to immediate modification of some of the main internal rules of the Company in order to adapt them to the new legislation.

The most important legal regulations pertaining to Corporate Governance and affecting the Company approved over the last three years are:

- Law 12/2010, of June 30, 2010, amending, among others, the Audit Law, the Securities Market Law, and the Revised Corporations Law (subsequently repealed by the Corporate Enterprises Law). This Law, which entered into force on July 2, 2010, transposed Directive 2006/43/EC of the European Parliament and of the Council of May 17, 2006 on statutory audits of annual accounts and consolidated accounts into Spanish law, and essentially affects the composition, structure and functions of the Audit Committee.
- Legislative Royal Decree 1/2010, of July 2, 2010, approving the Revised Corporate Enterprises Law and repealing, among others, the former Corporations Law and Title X (Articles 111 to 117) of the Securities Market Law, relating to listed companies (save for Articles 114.2 and 114.3, and Articles 116 and 116 bis, which have also been subsequently repealed by Sustainable Economy Law 2/2011, of March 4, 2011).
- Sustainable Economy Law 2/2011, of March 4, 2011, which in its Sub-provision 3 of Final Provision Five adds a new chapter VI in title IV of the Securities Market Law which includes Articles 61 bis and 61 ter, which expanded the minimum content of the Annual Corporate Governance Report and established



the obligation of the Board of Directors to prepare an Annual Report on Directors' Compensation.

- Law 25/2011, of August 1, 2011, partially reforming the Corporate Enterprises Law and incorporating Directive 2007/36/EC, of the European Parliament and of the Council of July 11, 2007, on the exercise of certain rights of shareholders in listed companies. Although the title of the Law only refers to a partial reform of the Corporate Enterprises Law, it also amends provisions of the Securities Market Law and of Law 3/2009, of April 3, 2009, on structural modifications to commercial companies. This Law, which entered into force on October 2, 2011, introduced, among others, the following new features in the area of corporate governance:
 - It establishes measures aimed at reducing the organizational and operating costs of corporate enterprises.
 - It eliminates differences between a corporation (S.A.) and a limited liability company (S.L.).
 - It introduces the possibility of meetings of the Board of Directors being called by at least one-third of its members if, after a request to the chairman, the latter has not called the meeting within one month.
 - It clarifies the rules on infringements and penalties for breaching treasury stock obligations and for violating statutory prohibitions in this connection, establishing a very broad scope of punishable conduct.
 - It introduces a new Article 11 bis in the Corporate Enterprises Law which regulates the electronic headquarters or corporate website. Of particular note in this Article are the provisions regulating the creation of the corporate website, establishing for this purpose that the website must be resolved on by the Shareholders' Meeting and such resolution must be registered at the Commercial Registry or notified to all of the shareholders.
 - It repeals Article 289 of the Corporate Enterprises Law which required disclosure on the website/newspapers of the following bylaw amendments:
 - Company name.
 - Corporate purpose.
 - Registered office.
 - It overhauls the rules on call notices and the right to information in relation to Shareholders' Meetings of corporations.
 - It incorporates some new features in the rules on listed corporations, mainly in the following areas:
 - In the information that the company's website must contain.
 - In some aspects relating to the outcome of votes.
 - In the shareholders' right to information.



- In matters relating to the representation by proxy of shareholders at Shareholders' Meetings.
- In the dealings between the financial intermediary and its clients for the purposes of casting votes.
- Law 1/2012, of June 22, 2012, simplified the information and documentation for mergers and spin offs of corporate enterprises, redrafts certain aspects of the Corporate Enterprises Law, fundamentally affecting regulation of certain aspects relating to the websites of listed companies (articles 11 bis, 11 ter and 11 fourth) and the possibility of introducing bylaw restrictions on voting rights, after these were expressly prohibited for listed companies by Law 12/2010, of June 30 (article 527 LSC).
- Royal Decree-Law 13/2012, of March 30, incorporating directives on domestic electricity and gas markets and electronic communications. This also introduced measures to correct deviation in imbalances between costs and revenues in the electricity and gas sectors relating to the regime applicable to the Company in relation to limitations on its shareholdings and voting rights, consolidating the previously applicable legal regime. This is explained in further detail later in this Report (new draft of the Additional Provision Twenty Three of the Electricity Industry Law).

CHAPTER II.- INTERNAL FRAMEWORK

The internal rules by which Red Eléctrica Corporación, S.A. is governed are subject to continuous modification in order to incorporate corporate governance best practices into the Company and to achieve greater transparency in the information provided to investors. We will now summarize the main changes in the area of corporate governance that have taken place in the Company's internal rules over recent years, so as to give a degree of historic perspective:

- In 2007, on a voluntary basis and before it was legally required, the Corporate Bylaws, Shareholders' Meeting Regulations and Regulations of the Board of Directors were adapted to the recommendations contained in the Unified Code of Recommendations for the Good Governance of Listed Companies (the "Conthe Code"), approved on May 19, 2006 by the Special Working Group advising the CNMV on the harmonization and update of the Olivencia and Aldama Report recommendations for the good governance of listed companies.
- Further amendments were made to the Corporate Bylaws and Shareholders' Meeting Regulations in 2008 in order to adapt them to Law 17/2007, of July 4, 2007.
- Continuing with such policy, in 2009 the Internal Code of Conduct on the Securities Market was modified, and in 2010, the Board of Directors, in a meeting held on January 28, approved a new version of the Regulations of the Board of Directors to adapt them to the corporate restructuring carried out in



2008 by the Red Eléctrica Group and to the aforementioned new version of the Internal Code of Conduct on the Securities Market. In May 2010, the Shareholders' Meeting approved an amendment of the Bylaws in relation to the shareholders' pre-emptive subscription right, to adapt them to Law 3/2009, of April 3, 2009.

- The Shareholders' Meeting held on April 13, 2011, approved an amendment to the Corporate Bylaws and to the Regulations of the Shareholders' Meeting in order to adapt them to the new legal requirements established in Law 12/2010, of June 30, 2010 (basically affecting the composition, structure and functions of the Audit Committee) and Legislative Royal Decree 1/2010, of July 2, 2010, approving the Revised Corporate Enterprises Law (fully repealing the Corporations Law and partially repealing the Securities Market Law).
- The Annual Shareholders' Meeting held on April 19, 2012 approved changes to the Bylaws and Regulations of the Shareholders' Meeting to bring them into line with Law 25/2011, of August 1, partially reforming the Corporate Enterprises Law in relation to the exercise of certain rights of shareholders in listed companies that affected the regime of listed corporations. The Bylaws were also amended to eliminate content that had become inadequate as a result of approval of the Arbitration Law 11/2011, of May 20, on corporate arbitration.

At present, in corporate governance matters the Company is also governed by the internal rules and procedures listed below which, as an internal legal regime, go beyond the applicable statutory requirements.

These rules, as of December 31, 2012, consisted of:

- The Corporate Bylaws.
- The Regulations of the Shareholders' Meeting.
- The Regulations of the Board of Directors.
- The Company Chairman Succession Plan
- The Internal Code of Conduct on the Securities Market
- The Procedure for proxies, voting and information by remote means at the Shareholders' Meeting (relating to the 2012 Annual Shareholders' Meeting).
- The Code of Ethics.
- The Regulations on the Functioning of the Shareholders' Electronic Forum (also in reference to the Annual Shareholders' Meeting held in 2012).

➤ **The Corporate Bylaws**

The Corporate Bylaws are constantly adapted, not only to the law, but also to best corporate governance practices and principles and have been successively amended for such purpose by the Annual Shareholders' Meeting in recent years. The Annual Shareholders' Meeting held on May 22, 2008 approved an amendment to the Corporate Bylaws, within the framework of the corporate reorganization process, in order to adapt them to the requirements of Law 17/2007 of July 4, 2007 amending



Electricity Industry Law 54/1997 of November 27, 1997 to adapt it to the provisions of Directive 2003/54/EC of the European Parliament and of the Council of June 26, 2003 concerning common rules for the internal market in electricity.

In 2010, the Annual Shareholders' Meeting amended Article 9 of the Corporate Bylaws in order to adapt it to Law 3/2009, of April 3, 2009, recognizing the shareholders' preemptive subscription right solely in the case of capital increases with the issue of new shares with a charge to monetary contributions and issues of debentures which are convertible into new shares.

The Annual Shareholders' Meeting held on April 13, 2011 approved another amendment of the Bylaws to adapt them to the new legal requirements established in Law 12/2010, of June 30, 2010, and in Legislative Royal Decree 1/2010, of July 2, approving the Revised Corporate Enterprises Law.

The Annual Shareholders' Meeting held on April 19, 2012 approved a modification to the Corporate Bylaws to adapt them to legislative changes that affected Corporate Governance in 2011. In particular, this included Law 25/2011, of August 1, partially reforming the Corporate Enterprises Law in relation to the exercise of certain rights of shareholders in listed companies, and to remove content that was no longer adequate following approval of the new Arbitration Law 11/2011, dated May 20, on corporate arbitration, and the Board of Director's opinion that any disputes should be submitted to the Courts and Tribunals, particularly given the existence of commercial courts with specialist judges in this area.

The amendments to the Bylaws have been notified to the CNMV and registered at the Commercial Registry.

Since May 2012, the Corporate Responsibility and Governance Committee has reviewed the effects and scope of the potential role of a lead independent director, the CEO and other measures to counterbalance the concentration of powers in a single person resulting from the combined role of Chairman of the Board of Directors and Chief Executive, as is the case of RED ELÉCTRICA. Approval by the Board of Directors of any of these measures proposed by the Corporate Responsibility and Governance Committee would require changes to the Regulations of the Board of Directors and perhaps to the Corporate Bylaws, the latter of which could be submitted to the next Annual Shareholders' Meeting for approval. In parallel to this, a process has been launched to analyse the content of some articles in the Corporate Bylaws relating to the composition of the Board Committees in order to incorporate international best practices, some of which the Company is already applying.

Furthermore, Additional Provision Twenty Three of Law 54/1997, of November 27, on the Electricity Industry, regulates shareholding limits in the Company. These basically remained unchanged, although there were some additional limitations on generators and resellers, that are explained in greater detail below. These legal provisions on the general and special shareholding regime are incorporated in articles 5 and 14 and the Sole Additional Provision of the Corporate Bylaws, and in article 6.3 of the Regulations of the Shareholders' Meeting, which had to be formally adapted to the new provisions of Additional Provision Twenty Three of Law 54/1997.



The detailed content of the proposed reform of the Bylaws prepared by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee, will be made public together with the call notice for the Annual Shareholders' Meeting.

➤ **The Regulations of the Shareholders' Meeting**

The Regulations were approved by the Annual Shareholders' Meeting of July 17, 2003, and amended by the Annual Shareholders' Meeting of May 22, 2008, in order to adapt them to the aforementioned Law 17/2007 of July 4, 2007.

The Regulations of the Shareholders' Meeting are the legal charter for shareholders of RED ELÉCTRICA, in line with best corporate governance practices, and include all of the new forms of shareholder protection and participation, with a view to recognizing, promoting and strengthening shareholder rights at the Company as far as possible.

The Annual Shareholders' Meeting held on April 13, 2011 approved the modification of the Regulations of the Shareholders' Meeting, as with the Bylaws, to adapt them to the new legal requirements established by Law 12/2010, of June 30, 2010, and by Royal Legislative Decree 1/2010, of July 2, 2010, approving the Revised Corporate Enterprises Law.

As with the Corporate Bylaws, the Annual Shareholders' Meeting held on April 19, 2012 likewise approved the modifications to the Regulations of the Shareholders' Meeting, to adapt them to legislative changes that affected Corporate Governance in 2011. In particular, Law 25/2011, of August 1, partially reforming the Corporate Enterprises Law in relation to the exercise of certain rights of shareholders in listed companies.

All of the amendments to the Regulations of the Shareholders' Meeting approved have been notified to the CNMV and registered at the Commercial Registry.

The above comments relating to the Corporate Bylaws also apply to the possible formal modification of the Regulations to adapt them to Additional Provision Twenty Three of Law 54/1997, of November 27, on the Electricity Industry, regulating shareholding limits in the Company.

➤ **The Regulations of the Board of Directors**

The Regulations of the Board of Directors were approved at the Board meeting held on January 28, 2010, amending the previous text dated December 20, 2007.



As indicated in Article 22 of the Corporate Bylaws, the principal purpose of the Regulations is to establish the basic rules on the organization and functioning of the Board of Directors and its Committees, the rules of conduct for its members and the system of supervision and control of the Board of Directors and its Committees, with a view to ensuring the highest standards of professionalism and efficacy in its actions. All of this is carried out by encouraging the active participation of its members, placing the interests of the Company and of its shareholders above their own interests, while upholding the law, the Corporate Bylaws and corporate governance principles.

During 2011 and 2012, the Corporate Responsibility and Governance Committee carried out an in-depth review of the Regulations of the Board of Directors in order to adapt them to the legislative amendments approved in 2010 and 2011 mentioned in Chapter I of this Title, following approval by the Annual Shareholders' Meetings held on April 13, 2011 and April 19, 2012 of amendments to the Corporate Bylaws and to the Regulations of the Shareholders' Meeting in order to adapt them to the many new legal requirements described above. In May 2012, the Company began a more wide-ranging review of the Regulations of the Board of Directors to incorporate best international corporate governance practices. This review is still on-going.

➤ **The Company Chairman Succession Plan**

At a meeting held on October 27, 2011 the Board of Directors approved the Succession Plan for the Company Chairman, following an increasingly common corporate governance practice worldwide, consisting of preparation and approval by listed companies of succession plans for their CEO or most senior executive, to minimize the impact of the handover on the organization, aiming to determine a model profile for the candidates and to ensure continuity in the corporate business, reducing insofar as possible the possible risks or negative effects of the appointment of a new chairman, until he or she is fully integrated into the post. The Company Chairman Succession Plan was approved on the basis of the special conditions present in Red Eléctrica's chief executive, which position is held by the Chairman of the Board of Directors, as established in Article 25 of the Corporate Bylaws. The Plan establishes a succession procedure split into several phases, attributing responsibilities to the managing bodies participating in it; all with a view to creating an environment in which the appointment of a new chairman may be carried out in an orderly and efficient manner that does not affect the Company's ordinary operations.

This Plan was applied for the first time in 2012, organizing the handover of the position of the Company's Executive Chairman from Luis Atienza Serna to José Folgado Blanco, helping to achieve an orderly succession.

➤ **The Internal Code of Conduct on the Securities Market.**

This was approved by the Board of Directors on June 25, 2009, replacing the former text approved on July 20, 2006. At a meeting held on June 30, 2011 the Board of Directors approved an update to the Code to adapt it to the Group's new corporate structure, and to include the new name of the Corporate Responsibility and



Governance Committee. At its meeting on July 26, 2012, the Board of Directors approved changes to the Internal Code of Conduct on the Securities Market in order to expressly set out certain periods prior to the presentation of the Group's results in which certain persons with access to information on these results are prohibited from transactions with the company's securities.

The update to the Internal Code of Conduct on the Securities Market has been registered at the CNMV.

➤ **The procedure for proxies, voting and information by remote means at the Shareholders' Meeting**

At its meeting on March 12, 2012, the Board of Directors approved the rules regarding voting and proxies by remote means and the exercise of the right to information by electronic means for the Annual Shareholders' Meeting held on April 19, 2012. As in previous years, this procedure was once again very satisfactory, with 440 shareholders holding 135,634 shares voting and/or delegating their vote electronically. This meant that 10.5% of the 4,180 shareholders present in person or by proxy at the Meeting participated in the Meeting by electronic means.

➤ **The Code of Ethics.**

The Code of Ethics was approved at the Board meeting of July 26, 2007, after an extensive process of public disclosure during which more than one hundred comments were received from all employees of the Group.

The Code reflects the corporate identity and commitments made to the business community and to the various stakeholders affected by the activities of the RED ELÉCTRICA Group. The Code contains the fundamental principles that must guide all members of the Board of Directors, the management bodies and employees of the RED ELÉCTRICA Group; it can also be invoked by stakeholders. Particularly notable is the internal procedure for the management of inquiries and complaints contained in the Code to ensure it is fully complied with. This procedure is already in operation.

The Code was voluntarily prepared by the Company, and has been communicated to all Red Eléctrica Group personnel.

An Ethics Manager has been appointed, tasked with the administration of the system for the detection and handling of breaches and complaints, and the monitoring and development of the Code of Ethics.

Throughout 2009, the Audit Committee closely monitored the implementation of the Company's Code of Ethics, continuing the work begun in this area in 2008.



In addition, the information sessions and presentations begun in 2008 regarding the Code of Ethics were completed in 2009 with the active participation of the Ethics Manager, both at the corporate headquarters and in all regional offices, in order to ensure the appropriate dissemination of the principles and recommendations of the Code, including those relating to the procedure for reporting financial and accounting irregularities, paying particular attention to any questions raised or clarification required.

In June 2009, the Ethics Manager presented the Annual Report on the Management of the Code of Ethics to the Board. This was the first report on the functioning of the Code of Ethics management system and has been assumed by the Company as an obligation, so it will be prepared annually.

The 2010 Annual Report on the Management of the Code of Ethics was approved on July 21, 2011. The Report describes the actions taken by the Company to raise awareness of the scope of the Code of Ethics and of the procedure for managing queries and complaints. Reference is also made to the queries made, the large majority of which related to how the commitments reflected in the Code should be interpreted in specific situations. Mention is also made of the complaints received and handled by the Ethics Manager, as well as their resolution.

To boost ethical and responsible management, a plan has been drawn up known as the Plan to Promote Ethical Management 2010-2012. This Plan highlights the Red Eléctrica Group's goal of pursuing its activity responsibly, by building a solid organizational culture, based on trust and on corporate values.

The Plan develops structures and systems, and implements awareness, training and dissemination projects, all of which will contribute to the consolidation of the Company's culture of ethical management. In 2011, a process was initiated to review and improve the Code of Ethics, which was in its final stage in late 2012.

➤ **Operating Rules of the Shareholders' Electronic Forum.**

These rules were approved by the Board of Directors at its meeting on March 12, 2012, and included the same terms and conditions (with some minor formal adjustments) as those approved by the Board at its meeting on February 24, 2011.

The Shareholders' Electronic Forum set up by Red Eléctrica Corporación, S.A. on its website, www.ree.es, on the occasion of holding its Shareholders' Meetings. It meets the need established in the last paragraph of Article 117.2 of Securities Market Law 24/1988, of July 28, 1988, introduced by Law 12/2010 of June 30, 2010, and in Article 539.2 of the Revised Corporate Enterprises Law, approved by Legislative Royal Decree 1/2010, of July 2, 2010.



The Shareholders' Electronic Forum is aimed at facilitating communication among the Company's shareholders (individuals or legal entities, and any voluntary associations that may be created) on the occasion of the holding of the Company's Shareholders' Meetings. Shareholders have the possibility of sending, for publication on the Forum, communications in accordance with the Law, accompanied by their contact details, thereby enabling shareholders to communicate with each other. No shareholders used this tool in 2012, perhaps due to lack of experience or practice in this market, which offers more commonly used resources for these purposes.

TITLE II- MAIN CORPORATE GOVERNANCE ASPECTS AND PRINCIPLES AT RED ELÉCTRICA

CHAPTER I.- FUNDAMENTAL CORPORATE GOVERNANCE PRINCIPLES AT RED ELÉCTRICA

RED ELÉCTRICA's fundamental corporate governance principles are based on the external and internal legal framework described above and on corporate governance best practices established in Spain (the Unified Good Governance Code) and abroad (policies, practices and recommendations set by foreign institutional investors, proxy advisors and international organizations such as the OECD).

There follows a summary of the best practices adopted by the Company, by group, each of which is described at a later stage in greater detail.

• The Board of Directors

- A low number of directors.
- A participative and proactive board.
- A percentage of Independent Directors (63.4%) in excess of the international requirements.
- A single Executive Director.
- The essential responsibilities for management of the Company, detailed in Article 5 of the Regulations of the Board of Directors, are expressly reserved for the Board of Directors in plenary session and cannot be delegated.
- The responsibilities that cannot be delegated cannot be carried out by the Executive Director or the Board Committees.
- The Board of Directors carries out an annual evaluation of its own operation, of the operation of the Board Committees and of the Board Chairman, and periodically with specialist external advice, as in the processes carried out for 2011 and 2012 (KPMG advisory services).



- In 2011, the Board of Directors approved a Succession Plan for the office of Company Chairman, to ensure, when the time comes, an orderly and well-planned handover that will not adversely affect the corporate interest or the corporate business.
- The Board of Directors has taken on board best practice recommendations on Gender Diversity. Four (36.4%) of its members, representing 40% of the Company's external directors, are women. This puts the Company in a leading position among IBEX 35 companies. The Board of Directors prepares and approves an annual report on Gender Diversity, which this year is available on the Company's website.
- The Board Chairman is also the Chief Executive (Executive Director) of the Company, by express decision of the Board of Directors and of the Shareholders' Meeting, and pursuant to article 25 of the Corporate Bylaws.
- The powers and responsibilities of the Executive Director are limited by:
 - The legal reservation of responsibilities of the Board of Directors that cannot be delegated.
 - The functions and responsibilities attributed to the Board Committees in the Corporate Bylaws and the Regulations of the Board of Directors.
 - The effective control exercised by the Board of Directors, at each monthly meeting, over the ordinary activities of the Executive Director.
 - The immediate effective control exercised by the Board of Directors, at each monthly meeting, over any extraordinary or urgent measures taken by the Executive Director.
- A high percentage of attendance and dedication to the exercise of their responsibilities by the Directors.
- Use of new technologies to facilitate the operation of the Board and provide Directors with information and documentation: the Directors' Portal.

• **The Board Committees**

- Committees formed by the Board of Directors, with an eminently technical profile, to support it in the performance of its responsibilities, designed to achieve greater efficiency and transparency.
- Comprising qualified professionals occupying important posts in other institutions and/or companies.



- These consist entirely of external directors, following the executive director leaving the Corporate Responsibility and Governance Committee.
- They have a majority of independent directors. One new development in 2012 was that the number of members of the Corporate Responsibility and Governance Committee fell from 4 to 3, as a result of the Executive Director leaving the Committee. As a result, both Committees now have 3 members, 2 of whom are independent directors. Both Committees are therefore controlled by independent directors.
- Chaired by Independent Directors, as envisaged in the Corporate Bylaws and the Regulations of the Board of Directors; the term of office of Committee chairmen is limited to three years, after which term they may not be re-elected until at least one year has elapsed from the date of their termination in office.
- No Directors belong to both Committees, favouring their total independence.
- The Committees hold regular monthly meetings and are genuine specialist technical bodies that provide great added value to the Board.
- The term of office of all Committee members is three years; members may be re-elected.
- The functions and responsibilities of the Committees are established in the Corporate Bylaws and in the Regulations of the Board of Directors, which provide them with a stable legal framework.

• **The compensation policy for the Board of Directors and the Executive Director:**

- There is total transparency and openness in the breakdown of each Director's individual compensation.
- The maximum limit of overall annual compensation for the Board of Directors is established in Article 20 of the Corporate Bylaws (1.5 % of the Company's net annual profit approved by the Shareholders' Meeting).
- Board compensation and the Board Compensation Report are submitted for approval by the Shareholders' Meeting as two separate and independent items on the Agenda.
- The vote of the Annual Shareholders' Meeting on Board compensation and the Board Compensation Report is binding.
- Until and including 2012, the total compensation of the Board of Directors was divided into two parts:



- Fixed compensation: Fees for attending Board and Board Committee meetings.
- Variable compensation: A sum linked to meeting of Company targets and strategies established in advance by the Board of Directors.

The targets and criteria determining the variable compensation of the Board of Directors are set in advance by the Corporate Responsibility and Governance Committee and are also assessed and evaluated at the end of each year by that Committee.

- o Before the approval of this 2012 Annual Corporate Governance Report, at its meeting on February 1, 2013, the Board of Directors approved a new compensation structure for the Board, in light of trends over recent years for international investors and their advisors to increase the weight of fixed compared to variable compensation, in order to achieve a different balance to that over recent years.

This new structure consists of:

- Fixed monthly compensation (one third).
- Fees for attending ordinary meetings of the Board of Directors (one third).
- Variable compensation (one third) linked to objectives in the Strategic Plan.
- A fixed annual amount is maintained for Committee attendance fees.
- o The Board of Director's total compensation, including all of these items, fell by 5% in 2012 compared to 2011.
- o The Board compensation policy is also based on other principles:
 - Moderation.
 - Link to actual dedication.
 - Link to Company performance, with continuous reduction in its weight in relation to Company results.
 - Aligned with the long-term interests of both the Company and the Shareholders, aiming to gradually incorporate the criteria and parameters required under international standards.
 - Acting as an incentive, but without conditioning Directors' independence (particularly in the case of Independent Directors).



- Transparency. This includes the compensation structures and elements most demanded by investors, aiming to further the objective of achieving maximum transparency.
- Aligned with general practice at listed companies.
- o The compensation of the Executive Director has a fixed and a variable component. A number of elements in the compensation package of the previous Executive Director have been removed; these are detailed in the Annual Report on Directors' Compensation.
- o The compensation of the Executive Director is in line with market practices, and fell in 2012 compared to 2011, as shown in the annual information published by the Company, and, shortly, in the Annual Report on Directors' Compensation.
- o The Executive Director's variable annual compensation for the executive role is limited to 50% of fixed annual compensation as the Executive Director.
- o The annual variable compensation of the Executive Director also depends on strategies, targets and criteria established in the Strategic Plan. This is determined by the Corporate Responsibility and Governance Committee at the end of the year following assessment of the objectives set.
- o The Executive Director has long-term variable compensation linked to fulfilment of strategies and targets established by the Corporate Responsibility and Governance Committee.

• **Relations with shareholders and institutional investors:**

The Company's relations with its shareholders and institutional investors are general in nature and no specific or special relationships are held with any of them.

The Company regularly organizes road shows, conducted by senior management, at principal financial centres in Spain and abroad where there is a high concentration of institutional investors, to inform them of its activities and its business performance, in an attempt to forge closer ties with these investors.

Given the high percentage of foreign institutional investors (around 70%), in 2012 as in previous years, the Company carried out a programme of investor and *proxy advisor* visits to receive relevant and up-to-date information, and to explain its Corporate Governance activities and practices. These visits aimed to establish adequate mechanisms for regular exchange of information with domestic and foreign investors and leading *proxy advisors*, to continue adapting to the most advanced international Corporate Governance standards.

Under no circumstances does the Company disclose to institutional shareholders any information that might place them in a privileged or advantageous situation vis-à-vis the other shareholders; rather, all information exchanged is public information.



All the above is in accordance with the provisions of the Regulations of the Board of Directors.

• **Independence of the External Auditor:**

At its Annual Shareholders' Meeting on April 19, 2012, the Company adapted its Corporate Bylaws to bring them into line with the aforementioned Law 12/2010, which aims to reinforce the competencies of the Audit Committee to verify the independence of the External Auditor. These adaptations will be incorporated into article 14 of the Regulations of the Board of Directors when they are next updated.

CHAPTER II.-SHAREHOLDER STRUCTURE.

The Company's capital is comprised of 135,270,000 fully subscribed and paid-in shares of a single class and series, each with a par value of €2, represented by book entries and listed on the four Spanish stock exchanges.

At December 31, 2012, the State-owned Industrial Holdings Company (Sociedad Estatal de Participaciones Industriales or "SEPI") directly owned a significant stake in the Company, holding 27,054,000 shares, which represent 20% of capital.

There are no individuals or legal entities that exercise or may exercise control over the Company, as provided in Article 4 of the Securities Market Law, which refers to article 42 of the Commercial Code.

The shareholding structure of the Company consists of a 20% stake held by SEPI, with the remaining 80% being free float. As explained below, no other shareholder may hold a stake greater than 5%.

Within the free float, of note is the high percentage of foreign shareholders, in particular, of institutional investors, who at December 31, 2012, represented 70% of the capital stock, which explains the importance that the Board of Directors attaches to international corporate governance practices and recommendations.

The entry into force of Law 17/2007 of July 4, 2007 introduced various changes affecting the Company's shareholders.

The purpose of these changes is, inter alia, to guarantee the Company's independence as regards the other activities and participants in the electricity sector, since the activities pursued by RED ELÉCTRICA (transmission of electricity and operation of the electricity system) are considered by the State legislature to be an essential service. Royal Decree-Law 13/2012, of March 30, incorporated a number of Directives into Spanish law. One of these was Directive 2009/72 of July 13, 2009, which proclaims the mandatory independence of transmission companies and operators of European electricity systems. This endorsed the legal limits on holdings and voting rights applicable to the Company's shareholders, including some further restrictions on companies involved in generating and resale. Royal Decree-Law



13/2012, of March 30, modified Additional Provision Twenty Three of the Electricity Industry Law and article 34.1 of Law 54/1997, of November 27, on the Electricity Industry.

The shareholding limits established in the new draft of Additional Provision Twenty Three of Law 54/1997, of November 27, on the Electricity Industry, continue to be basically the same as previously established, with some added limitations for generators and resellers:

- 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 capital and they do not exercise more than 3% of voting rights. These shares may not be pooled for any purpose whatsoever.
- Parties that engage in activities in the electricity industry, and those individuals or legal entities that directly or indirectly hold more than 5% of their capital, may not exercise more than 1% of voting rights, without prejudice to the limitations established in article 34.2 of the Electricity Industry Law for generators and resellers.
- The special regime for SEPI is maintained, whereby it must hold at least ten percent (10%) of capital in all cases.

These legal provisions on the general and special shareholding regime are incorporated in articles 5 and 14 and the Sole Additional Provision of the Corporate Bylaws, and in article 6.3 of the Regulations of the Shareholders' Meeting.

Law 1/2012, of June 22, 2012, simplified the information and documentation for mergers and spin offs of corporate enterprises, redrafts certain aspects of the Corporate Enterprises Law, affecting, among others, regulation of certain aspects relating to the possibility of introducing bylaw restrictions on voting rights, after these were expressly prohibited for listed companies by Law 12/2010, of June 30 (article 527 LSC). This does not affect the Company, as it sets out a general regime for listed companies, whereas the Company is subject to the limitations set out in the aforementioned Law 54/1997, of November 27, on the Electricity Industry.

CHAPTER III.-THE SHAREHOLDERS' MEETING

The Shareholders' Meeting, duly called and legally constituted, represents all of the shareholders and exercises the functions corresponding to it within the Company.

Its resolutions, adopted pursuant to the Regulations of the Shareholders' Meeting and the Corporate Bylaws, are binding on all shareholders, notwithstanding their legal right to withdraw from the company. The Shareholders' Meeting shall have the power to adopt all resolutions specific to its status as the Company's sovereign body. In particular, and without limitation, it is responsible for:

- Approving the Company's individual and consolidated financial statements, its management by the Board of Directors, and the proposed distribution of income.



- Appointing and removing Directors, ratifying, as necessary, their appointment by co-optation, and appointing and reappointing the auditors.
- Approving programs or authorizing transactions involving treasury stock.
- Approving the establishment of compensation systems for Directors, and, as applicable, the management team linked to the share price.
- Resolving to issue debentures, increase or reduce capital, change the legal form, merge, spin off or dissolve the Company, and make any amendment to the Corporate Bylaws.
- Authorizing the Board of Directors to increase capital pursuant to the provisions of the Corporate Enterprises Law.
- Approving transactions the effect of which is equivalent to the modification of the Company's corporate purpose.

The rules on the organization and functioning of the Shareholders' Meeting are contained in the Corporate Bylaws (Articles 11 through 18) and in the Regulations of the Shareholders' Meeting.

For some time now, proposed resolutions have been published in full, in Spanish and in English, upon call of the Shareholders' Meeting, with all relevant information for shareholders being posted on the Company website, which is designed to make it easier for shareholders to exercise their right to information. The Company's website is a suitable mechanism for communicating with shareholders and investors, given that on it the following information, among others, is posted:

- The quorum requirement and the result of the votes on each of the resolutions approved by the Shareholders' Meetings in the previous year.
- Information relating to the right of attendance and procedures for granting proxies for Shareholders' Meetings, in accordance with the provisions of the Corporate Bylaws and Regulations of the Shareholders' Meeting.
- Information on electronic voting and proxies.
- Information on securities issues.
- Information on the rating granted by credit rating agencies.
- Increased information on shareholdings, with greater detail on significant holdings, treasury stock and side agreements between shareholders.

The Annual Shareholders' Meeting of April 19, 2012, approved, among other resolutions, an amendment of the Bylaws and of the Regulations of the Shareholders' Meeting, which, among other objectives, sought to adapt the legal regime of the Shareholders' Meeting to the new legal regime established in Law 25/2011 of August 1,



partially reforming the Corporate Enterprises Act, and incorporating Directive 2007/36/EC, of the European Parliament and of the Council, of July 11, on the exercise of certain rights by shareholders of listed companies.

The aforementioned Law 25/2011, of 1 August, introduced a number of changes relating to the website content of listed companies; however, most of these had already been introduced in the Company's website. This Law established precisely certain information that must be posted on the website when the Shareholders' Meeting is called, and although the strict wording of the Law is specific, its scope is generally covered by the current Shareholders' Meeting Regulations. Nevertheless the Annual Shareholders' Meeting held on April 19, 2012, approved modification of the Regulations of the Shareholders' Meeting to incorporate the content required under the Law into the appropriate articles.

Law 25/2011 gives greater prominence to company websites, since it introduces a new Article 11 bis to the Corporate Enterprises Law regulating the online site or corporate website. The Law also incorporates an obligation under Article 516 of the Corporate Enterprises Law for listed companies to use the website to disseminate the call notice for the Shareholders' Meeting, something which Red Eléctrica Corporación, S.A. has been doing for a number of years. In compliance with these new requirements set out in the Law, the Annual Shareholders' Meeting of April 19, 2012, ratified the creation of a website for the Company. This resolution has been registered with the Madrid Mercantile Registry.

In addition, the following actions were taken to facilitate the exercise of the shareholders' right to information:

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the Shareholders' Meeting and especially the financial statements and the Annual Corporate Governance Report, are made available to all shareholders at the corporate headquarters, on the website and at the Shareholder Information Office.
- An entire section of the agenda of the Shareholders' Meeting is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.
- The annual reports on the activities of the Audit Committee and of the Corporate Responsibility and Governance Committee are made available to all shareholders in the Annual Corporate Governance Report.
- A Shareholder Bulletin is published quarterly, containing the main news about the Company.
- The Chairman of the Audit Committee is available to all shareholders during Shareholders' Meetings to deal with any matters falling within his jurisdiction as



may arise, communicating this to the shareholders during the Shareholders' Meeting.

- The items included on the agenda for the Shareholders' Meeting are as detailed as possible.
- Separate voting on each item is permitted, including via remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each item submitted to vote.
- The Shareholder Information Office specifically deals with requests made by Company shareholders. Shareholders may submit questions in writing regarding the information available to the public or notified to the competent authorities and make inquiries through the Shareholder Information Office.
- A new development in 2012 was the review of the voting management and results processes at the Annual Shareholders' Meeting held on April 19, 2012 by the consultancy Deloitte. Their final report identified a number of the Company's strengths, whilst also making proposals for improvements and a number of recommendations.

Shareholder rights are regulated in Article 15 of the Corporate Bylaws, which expressly refers to the right to information and attendance of Shareholders' Meetings, and in Articles 6 through 10 of the Regulations of the Shareholders' Meeting. Specifically, the rights are as follows:

➤ Right to Information

The Company pays special attention to the right to information, as reflected in Article 15 of the Corporate Bylaws and Article 8 of the Regulations of the Shareholders' Meeting. Article 8 of the Regulations of the Shareholders' Meeting establishes the obligation to make documentation and information relating to the meeting agenda available to shareholders, free of charge, both at the Shareholder's Office and on the Company website.

In addition, during the meeting, shareholders can orally request any reports or clarification they deem appropriate regarding the items on the agenda. If such requests cannot be satisfied at the time, the Board of Directors must provide the information in writing within seven days of the meeting.

An open, free-flowing and accessible dialog is maintained with shareholders. Communications are made with the utmost transparency, providing all available information to shareholders at the same time as it is received by other participants in the securities and financial markets.

A specific Shareholder Information Office is in place to deal with any inquiries from minority shareholders.



The Company undertakes to make documentation and information relating to the meeting agenda available to shareholders, free of charge, both at the Shareholder Information Office and on the Company website, including the following documentation:

- The call notice of the Shareholders' Meeting, containing the proposed resolutions and the corresponding reports by the Board of Directors.
- The Company's individual and consolidated financial statements and the proposed distribution of income for the year.
- The Company's individual and consolidated management reports for the year.
- The audit reports relating to the Company's individual and consolidated financial statements.
- The Annual Corporate Governance Report.
- The Corporate Responsibility Report.
- The report on the compensation policy for the Board of Directors, included in the annual public documentation submitted to the Annual Shareholders' Meeting.
- The environmental report.
- Any other report the inclusion of which is obligatory or is determined by the Board of Directors.

➤ Right to attend

Shareholders may attend the Shareholders' Meeting if they are up to date in the payment of capital calls and evidence their share ownership, by way of certification in their name, in the accounting register of book entries five days before the meeting is due to be held.

To this effect, Article 15 of the Corporate Bylaws and Article 10 of the Regulations of the Shareholders' Meeting provide that shareholders with the right to attend may be represented at the Shareholders' Meeting by any other person, in the manner established in the Corporate Enterprises Law. The condition that the proxy must be a Company shareholder has been withdrawn, following approval of adopting the content of Law 25/2011 at the Annual Shareholders' Meeting held on April 19, 2012.

There is no bylaw restriction requiring a minimum number of shares to attend the Shareholders' Meeting (application of the one share, one vote principle).

Company Directors and Executives are required to attend Shareholders' Meetings.

As a general rule and in order for the proceedings of meetings and the resolutions adopted to reach the widest audience, the media are allowed access to Shareholders'



Meetings and Meetings are broadcast in an audiovisual format, with simultaneous translation into English.

➤ Right to Participate and New Technologies

The Regulations of the Shareholders' Meeting allow shareholders to participate to the fullest extent in matters of interest to them (right to attend, meeting calls, inclusion of items and proposals on the agenda, inquiries and requests for information and voting).

In line with the most well-known recommendations in this area, the Regulations of the Shareholders' Meeting are in line with the regime established by Law 26/2003 of July 17, 2003 regarding the development of shareholder rights and the rules regarding the organization and functioning of the Shareholders' Meeting and the current Corporate Enterprises Law, following the reforms introduced by Law 25/2011, of 1 August. This Law introduced a number of adjustments and provisions aimed at reinforcing the shareholders' right to participate in the Shareholders' Meeting. This led to the Regulations of the Shareholders' Meeting and the Corporate Bylaws being adapted to conform to the Law at the Annual Shareholders' Meeting held on April 19, 2012.

The Regulations of the Shareholders' Meeting thus provide that shareholders owning 5% of capital may request that the Board, prior to issuing the call, include any item on the agenda for the next Shareholders' Meeting. The Board of Directors must include the items requested in the manner that best suits the Company's interests, provided that they refer to matters falling within the scope of the powers of the Shareholders' Meeting.

Shareholders may also make proposals regarding items on the agenda and suggestions regarding any activities and interests of the Company that, in their opinion, should be discussed at the Shareholders' Meeting. In both cases, shareholders may make proposals and suggestions through the Shareholder Information Office.

Red Eléctrica introduced an electronic voting system in 2005. It was one of the pioneers of this system, which allows shareholders to exercise their voting rights electronically via the Company website, www.ree.es. Since then, the Company has allowed shareholders to exercise their voting rights electronically at all Shareholders' Meetings.

Following the ongoing policy of providing shareholders with advanced electronic means of exercising their rights, the Board meeting held on March 12, 2012 approved the rules regarding voting and proxies by remote means and the exercise of the right to information by electronic means for the Annual Shareholders' Meeting held on April 19, 2012. This procedure was once again satisfactory, with 440 shareholders holding 135,634 shares voting and/or delegating their vote electronically. This meant that 10.5% of the 4,180 shareholders present in person or by proxy at the Meeting participated in the Meeting by electronic means.

In addition, presentations to analysts and the Shareholders' Meeting are broadcast in real time on the Company website. Webcasts of presentations are available on the



Company website. Since 2007, the Shareholders' Meeting has been broadcast via live video webcast, with simultaneous translation into English.

In 2011, the Company launched its Shareholders' Electronic Forum. The purpose of this is to facilitate communication among the shareholders of Red Eléctrica with a view to publishing proposals to supplement the agenda contained in the call notice, issuing requests for adhesion to such proposals, presenting initiatives in order to reach the percentage to exercise the minority right envisaged in the law or making offers or requests for voluntary representation.

This tool has been incorporated into Article 8.4 of the Regulations of the Shareholders' Meeting, following its approval by the Shareholders' Meeting held on April 13, 2011. This meets the legislative requirements envisaged in Article 539 of the Corporate Enterprises Law.

The Shareholders' Electronic Forum was made available to shareholders in 2012, once its operating terms and conditions had been approved by the Board of Directors at its meeting on March 12, 2012; however, this has not yet been used in practice.

The Company also used certain social networking sites (Facebook and Twitter) in 2012 to publicize and provide information on the Annual Shareholders' Meeting.

As already mentioned, Law 25/2011, of August 1, establishes a duty on listed companies to provide a website that must be approved at the Annual Shareholders' Meeting. The Annual Shareholders' Meeting held on April 19, 2012 ratified the creation of the corporate website "www.ree.es", which has been registered with the Mercantile Registry.

CHAPTER IV.-THE BOARD OF DIRECTORS

• Organization, powers and composition

As of December 31, 2012 the Board of Directors was composed of 11 directors (1 executive director, 3 nominee directors and 7 independent directors).

The Board of Directors governs and represents the Company with the support of the Audit Committee and the Corporate Responsibility and Governance Committee.

The rules on the organization and functioning of the Board are contained in the Corporate Bylaws (Articles 19 through 26) and in the Regulations of the Board of Directors.

The Board approves the annual meeting calendar at the end of the preceding year and recognizes the right of Directors to make amendments to the agenda of each meeting,



provided sufficiently in advance (in practice, at least 6 days beforehand), together with the call notice and meeting documentation.

Pursuant to the Corporate Bylaws and the Regulations of the Board of Directors, the principle guiding the Board's actions at all times is the defence of the viability and value of the Company in the long term, and the protection and promotion of the Company's general interests.

Specifically, the Board holds all powers to manage and represent the Company, both in and out of court, exercising such powers directly, via delegation or pursuant to a power of attorney on the terms established in law, the Corporate Bylaws and Regulations of the Board of Directors.

The Board's policy is to delegate the ordinary management of the Company to the executive bodies and the management team and to concentrate on its general supervisory function, the approval of basic operating guidelines and strategies and on decisions that are highly relevant to the interests of the Company.

In particular, the Board of Directors has expressly reserved (Article 5 of the Regulations of the Board of Directors) on a non-delegable basis, the following responsibilities:

- a) Approval of the general policies and strategies of the Company and, in particular:
 - i) Approval of the strategic or business plan of the Company and its Group, as well as the annual budget and management objectives.
 - ii) Approval of the investment and financing policy.
 - iii) Approval of the definition of the structure of the corporate Group.
 - iv) Approval of the corporate governance policy.
 - v) Approval of the corporate responsibility policy.
 - vi) Approval of the policy regarding compensation and evaluation of senior executives.
 - vii) Approval of the policy for control and management of the principal risks of the Company and of the Group, and knowledge and periodic monitoring of internal control, prevention and reporting systems.



- viii) Approval and, if applicable, proposal to the Shareholders' Meeting of dividend and treasury stock policies, in particular, the limits thereof.
 - ix) The other policies and strategies specifically envisaged in the Regulations of the Board of Directors.
- b) The following decisions:
- i) Directors' compensation and, in the case of Executive Directors, the additional consideration for their executive functions and other contractual conditions that must be observed.
 - ii) Financial information that the Company must periodically disclose as a listed company.
 - iii) Investments or transactions deemed to be strategic by virtue of their high amount or special characteristics, unless their approval corresponds to the Shareholders' Meeting.
 - iv) The creation or acquisition of holdings in special-purpose vehicles or entities domiciled in countries or territories that are considered tax havens, and any other transactions and operations that could impair the transparency of the Group.
- c) Related-party transactions, as defined by legislation in force from time to time, that are material or outside the ordinary course of business of the Company and must be reported obligatorily to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee.
- d) The annual evaluation of:
- i) The quality and efficiency of the functioning of the Board and the performance by the Chairman of his functions, based on a report referred thereto by the Corporate Responsibility and Governance Committee.
 - ii) The functioning of its Committees, based on the reports referred thereto by them".

Pursuant to the Corporate Bylaws, Directors hold office for a term of 4 years.

In line with the recommendations of the Unified Code of Recommendations for the Good Governance of Listed Companies (the "Conthe Code"), the maximum term of office for Independent Directors has been established in the Regulations of the Board of Directors at twelve (12) years. All other types of Director may be reappointed indefinitely by the Shareholders' Meeting.



Proposals for the removal of independent directors should not be made before the end of the term of office specified in the Corporate Bylaws for which they were appointed, except where there is sufficient cause, subject to a report by the Corporate Responsibility and Governance Committee.

There were a number of major changes in the Board of Directors in 2012:

- At its meeting held on February 27, 2012, the Board of Directors accepted the resignation tendered by Rafael Suñol Trepas, from his position as nominee director of Red Eléctrica Corporación, S.A. in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

- At its meeting on March 8, 2012, the Board of Directors agreed to remove the chairman of the Board of Directors and Chief Executive of the Company, Luis M^a Atienza Serna, and accepted his resignation as a Director of the Company. At the same meeting, the Board of Directors approved the appointment of the director José Folgado Blanco as the Chairman of the Board of Directors and the Company's Executive Director. Mr. Folgado status as a director was changed from independent to that of Executive Director by virtue of the resolutions of the Company's Board of Directors at its meeting on March 8, 2012, which were communicated to the markets.

-The Annual Shareholders' Meeting held on April 19, 2012, approved the re-election and appointment of the following directors, each for the 4-year term set out in the Corporate Bylaws:

- José Folgado Blanco was re-elected as Executive Director.
- Alfredo Parra García-Moliner was appointed nominee director in representation of the shareholder Sociedad Estatal de Participaciones Industriales (SEPI).
- Francisco Ruiz Jimenez was appointed nominee director in representation of the shareholder Sociedad Estatal de Participaciones Industriales (SEPI).
- Fernando Fernández Méndez de Andés was appointed nominee director in representation of the shareholder Sociedad Estatal de Participaciones Industriales (SEPI).
- Paloma Sendín de Cáceres was appointed as an independent director.
- Carmen Gómez de Barreda Tous de Monsalve was appointed as an independent director.
- Juan Iranzo Martín was appointed as an independent director.

Subsequently to this Annual Shareholders' Meeting, Francisco Javier Salas Collantes tendered his resignation as a director of this Company on 31 May, 2012, as a result of legal incompatibility arising under article 22.3.b of the Regulations of the Board of Directors: *"when they are subject to any of the grounds of incompatibility or prohibition provided for by law"*. This legal incompatibility arose as a result of the entry into force of Royal Decree-Law 13/2012, incorporating into Spanish law the provisions of Directive



2009/72/EC of the European Parliament and of the Council of July 13, 2009 concerning common rules for the internal market in electricity. This established the incompatibility of simultaneously being a member of the governing body of an electricity system operator and of a company involved in electricity generation: this is the case with Abengoa Solar, S.A., of which Mr. Salas Collantes was a director.

- Finally, María José García Beato was appointed to the Board of Directors by co-optation at its meeting on November 29, 2012, until the next Shareholders' Meeting, in order to cover the vacancy on the Board of Directors arising from the resignation of Francisco Javier Salas Collantes.

The names of the Directors, the dates of their first and last appointment, position on the Board, type of Director, election procedure and Board Committee membership, at December 31, 2012, were as follows:

Name of Director	First Appointment	Last Appointment	Position on the Board	Type of Director	Appointment procedure	Board Committee Membership
José Folgado Blanco	22.05.08	19.04.12	Chairman	Executive	Shareholders' Meeting	---
Alfredo Parra García-Moliner	19.04.12	19.04.12	Member	External Nominee (SEPI)	Shareholders' Meeting	Corporate Responsibility and Governance Committee (member)
Francisco Ruiz Jiménez	19.04.12	19.04.12	Member	External Nominee (SEPI)	Shareholders' Meeting	---
Fernando Fernández Méndez de Andés	19.04.12	19.04.12	Member	External Nominee (SEPI)	Shareholders' Meeting	Audit (member)
María Angeles Amador Millán	26.05.05	21.05.09	Member	External Independent	Shareholders' Meeting	Audit (member)
Rui Manuel Janes Cartaxo	20.05.10	20.05.10	Member	External Independent	Shareholders' Meeting	---
Miguel Boyer Salvador	20.05.10	20.05.10	Member	External Independent	Shareholders' Meeting	---
Paloma Sendín de Cáceres	19.04.12	19.04.12	Member	External Independent	Shareholders' Meeting	Audit (chairwoman)
Carmen Gómez de Barreda Tous de Monsalve	19.04.12	19.04.12	Member	External Independent	Shareholders' Meeting	Corporate Responsibility and



						Governance Committee (member)
Juan Iranzo Martín	19.04.12	19.04.12	Member	External Independent	Shareholders' Meeting	Corporate Responsibility and Governance Committee (Chairman)
María José García Beato	29.11.12	29.11.12	Member	External Independent	Board of Directors	---

• Professional profiles of the Directors

The Company's Directors are professionals of high standing with broad professional experience. Their contribution to the management of the Company is the experience and knowledge necessary to meet the Company's needs.

Set out below are the principal activities pursued by Board members outside the Company at December 31, 2012:

	<p>Chairman, Executive Director</p> <p>José Folgado Blanco, born April 3, 1944.</p> <p>Degree in Economics. Final-year award with special distinction. Doctorate in Economics, Universidad Autónoma de Madrid.</p> <p><i>Formerly:</i></p> <p>Head of the economics department of the CEOE. Member of the Economic and Social Board representing business organizations. Secretary of State for Budgets and Expenditure. Ministry of Economy and Finance, from May 1996. Secretary of State for Economy, Energy and Small and Medium-Sized Enterprises. Ministry of Economy, from April 2000. Secretary of State for Energy, Industrial Development and Small- and</p>
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	<p>Medium-Sized Enterprises. Ministry of Economy, since July 2002.</p> <p>Parliamentary representative of the province of Zamora and Deputy Chairman of the Economy and Finance Committee, since March 2004.</p> <p>Mayor of Tres Cantos (Madrid) since June 2007.</p> <p><i>Currently:</i></p> <p>Tenured Professor of Public Finance and Tax Systems, Universidad Autónoma de Madrid.</p> <p>Member of the Social Board, Universidad Autónoma de Madrid.</p>
	<p>External Nominee Director proposed by SEPI</p> <p>Alfredo Parra García-Moliner, born December 22, 1971.</p> <p>Law Degree, Universidad de Leon.</p> <p>Member of the National College of State Attorneys, graduating top in 1997.</p> <p><i>Formerly:</i></p> <p>State Attorney in the Courts and Tribunals of Madrid.</p> <p>State Attorney in the Government Attorney's Office, State Legal Service Department, General Litigation Services Division.</p> <p>State Attorney Coordinating Legal Assistance to the Nuclear Safety Council.</p> <p>State Attorney Coordinating Legal Assistance to the Instituto Cervantes.</p> <p>State Attorney-Head in the Ministry of Foreign Affairs and Aid.</p> <p>Member of the Committee for the Reform of the Foreign Service.</p> <p>Secretary of the Administrative Council of the State Corporation for Spanish Cultural Action Abroad, created by agreement of the Ministerial Cabinet for the organisation and management of international exhibitions and related activities.</p> <p>Director of Legal Services for Corporación Radio y Televisión Española, S.A.</p> <p>Author of a number of legal articles and publications.</p>



	<p><i>Currently:</i></p> <p>General Secretary and Director of Sociedad Estatal de Participaciones Industriales (SEPI)</p>
	<p>External Nominee Director proposed by SEPI</p> <p>Francisco Ruiz Jiménez, born January 26, 1975.</p> <p>Graduate in law from the Universidad Pontificia de Comillas (ICADE E-1). Diploma in Company Consultancy from the Universidad Pontificia de Comillas (ICADE E-1). Auditor. Real estate agent.</p> <p><i>Formerly:</i></p> <p>Worked with the legal chambers of Ignacio Izquierdo del Valle. Employed by Caja de Ahorros y Pensiones de Barcelona, "La Caixa". Inspector of Credit Entities for the Banco de España's Supervision Department, with a range of responsibilities from 2003 to 2012. Lecturer in Accounting and the Spanish Financial System at the Centro de Estudios Financieros. Lecturer in finance and accountancy on a number of postgraduate courses at the Centro de Estudios Financieros. Conference speaker on issues relating to the financial system.</p> <p><i>Currently:</i></p> <p>Director General of the Sociedad Estatal de Participaciones Industriales (SEPI).</p>
	<p>External Nominee Director proposed by Sociedad Estatal de Participaciones Industriales (SEPI)</p> <p>Fernando Fernández Méndez de Andés, born February 10, 1956.</p> <p>Doctorate in Economics, Universidad Autónoma de Madrid. Lecturer in Economics and Director of the International Financial System Chair at the IE Business School, specialising in Macroeconomics, the International Economy and Financial Stability.</p>



	<p><i>Formerly:</i></p> <p>Principal Economist at the International Monetary Fund.</p> <p>Chief Economist and Director of Research Service at Banco Central Hispano (BCH) and Banco Santander</p> <p>Rector of the Universidad Europea de Madrid and the Universidad Antonio de Nebrija.</p> <p>Director of the European Business Programme.</p> <p>Member of the Executive Committee of the Association for European Monetary Union.</p> <p>Member of the Economists Council of Conference Board, Europe.</p> <p>Member of the Permanent Committee of Head Economists at the Instituto Internacional de Finanzas and the Grupo de Trabajo en Prevención y Resolución de Crisis (Crisis Prevention and Resolution Working Group), during the 1999-2002 Latin American debt crisis.</p> <p>Member of the Executive Committee of the Instituto de Estudios Económicos.</p> <p>Member of the Technical Group on Financing Emerging Economies at the Ministry of Economics and Commerce.</p> <p>Collaborator with the Instituto de la Mujer (Women's Institute)</p> <p><i>Currently:</i></p> <p>International consultant on macroeconomic, regulatory and financial issues.</p> <p>Chairman of Pividal Consultores and Associate Director of DFC.</p> <p>External Advisor to the Strategy Committee of the Grupo Financiero Arcano.</p> <p>Collaborator with the Fundación de Estudios Financieros.</p> <p>Frequent economic commentator and columnist in the media.</p> <p>Frequent speaker at international conferences and events related to his professional and academic activity, and the author of numerous related articles and publications.</p> <p>Independent director of Bankia, S.A.</p>
	<p>External Independent Director</p> <p>Ma Ángeles Amador Millán, born October 10, 1949.</p>



	<p>Law Degree, Universidad Complutense de Madrid</p> <p><i>Formerly:</i></p> <p>Technical General Secretary, Ministry of Public Works and Urban Development.</p> <p>Undersecretary, Ministry of Health and Consumer Affairs.</p> <p>Minister for Health and Consumer Affairs.</p> <p>Member of Parliament for Segovia.</p> <p>Member of Parliament for Madrid.</p> <p>Deputy Chairwoman, Constitutional Committee, Lower House of Parliament.</p> <p><i>Currently:</i></p> <p>Practicing attorney.</p> <p>Member, Advisory Board, Accenture.</p>
	<p>External Independent Director</p> <p>Rui Manuel Janes Cartaxo, born July 9, 1952.</p> <p>Degree in Economics, Universidad Técnica de Lisboa.</p> <p><i>Formerly:</i></p> <p>Lecturer, Instituto Superior de Economía y Gestión (ISEG).</p> <p>Economist, research area, Banco de Portugal.</p> <p>Consultant, OECD Department of Research (Paris).</p> <p>Financial Director, Ministry of Finance.</p> <p>Executive Director, CN-Comunicacoes Nacionais, SGPS, S.A.</p> <p>Executive Director, TRANSGÁS, S.A.</p> <p>CEO of GALP POWER.</p> <p>Executive Director, GALP ENERGÍA SGPS.</p> <p>Assistant to the Portuguese Minister of Economy and Innovation.</p> <p>CFO of REN-REDES ENERGÉTICAS NACIONAIS, SGPS.</p>



	<p><i>Currently:</i></p> <p>Chairman and CEO of REN-REDES ENERGÉTICAS NACIONAIS, SGPS.</p>
	<p>External Independent Director</p> <p>Miguel Boyer Salvador, born February 5, 1939. Degree in Physical Science and Economics, with special distinction, Universidad de Madrid.</p> <p><i>Formerly:</i></p> <p>Director of Studies, Instituto Nacional Industria (I.N.I.) Head of Strategic Planning, Explosivos Río Tinto. Member of Parliament for Jaen. Director of Planning and Studies, Instituto Nacional de Hidrocarburos. Minister for Economy, Finance and Trade. Chairman, Banco Exterior de España. Member of the Review Committee, European Organization for Nuclear Research (CERN, Geneva). Member – as one of two experts – of the Expert Group on the Economic and Monetary Union of the European Union (“Delors Commission”) Chairman, Cartera Central. Chairman and Managing Director, Grucyrsa. Deputy Chairman, FCC Construcción. Chairman, Compañía Logística de Hidrocarburos (CLH).</p> <p><i>Currently:</i></p> <p>Representative of Corporación Financiera Issos, on the Board of Directors of Reyal-Urbis, S.A.</p>
	<p>External Independent Director</p> <p>Paloma Sendín de Cáceres, born September 19, 1951</p> <p>Graduate in Economics and Business Science, Universidad Autónoma de Madrid. Commercial Technician and State Economist. State Commercial</p>



	<p>Diploma.</p> <p><i>Formerly:</i></p> <p>Director General of Promotion for ICEX.</p> <p>Director General of Mines.</p> <p>Chairman of the National Mining Safety Commission.</p> <p>Director General of the Institute for Restructuring of the Mining Industry and Alternative Development, reporting to the Ministry of Industry and Energy.</p> <p>Member of the Nuclear Safety Council (CSN) and member of a number of national and international commissions, representing the CSN before the OECD and other bodies.</p> <p>Director General of Administration and International Relations for the Organisation of Ibero-American States for Education, Science and Culture (OEI).</p> <p>Member and representative of Spain on various EC committees and workgroups.</p> <p>Member of the Organising Committee of the European Union Conference on Stakeholders.</p> <p>Member of the Organising Committee of the 2nd Forum on the Implications of the New Recommendations of the International Commission on Radiological Protection.</p> <p>Director of the Sociedad Estatal de Participaciones Industriales (SEPI) (1997-2000). Director of Hulleras del Norte (HUNOSA).</p> <p>Director, Banco Exterior de España. Director, Compañía Logística de Hidrocarburos (CLH).</p> <p>Director of FOCOEX.</p> <p>Director of Tabacos de Filipinas.</p> <p>Director of SIRECOX.</p> <p>Director of the Centro para el Desarrollo Tecnológico Industrial (CDTI).</p> <p>Director of the Fábrica Nacional de Moneda y Timbre (FNMT).</p> <p>Director of Tabatrade.</p> <p>Director of the Banco Exterior de España, in the UK. Author of numerous articles and publications related to her professional activity.</p> <p>Speaker at conferences and events related to her professional activity in Spain, Europe, America and Asia.</p> <p>Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin.</p> <p><i>Currently:</i></p>
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	<p>Advisory Committee Member of the Escuela Técnica Superior de Ingenieros de Minas de Madrid.</p> <p>Advisory Committee Member of the Fundación para Estudios sobre la Energía.</p>
	<p>External Independent Director</p> <p>Carmen Gómez de Barreda Tous de Monsalve, born May 20, 1968.</p> <p>Doctorate in Economics and Business Science from the Universidad Pontificia de Comillas (ICADE).</p> <p>Masters in Business Administration, IESE, Universidad de Navarra.</p> <p><i>Formerly:</i></p> <p>Commercial manager of the cogeneration area for Enagás.</p> <p>Manager of international, petrochemical and marketing departments for Repsol.</p> <p>Service Development Manager for Unión Fenosa.</p> <p>Deputy Director of Oil Markets at the Comisión Nacional de Energía (CNE).</p> <p>Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).</p> <p>Responsible for Security of Supply Energy Regulations and Market Supervision at the Asociación Iberoamericana de Entidades Reguladoras de Energía (ARIAE).</p> <p>Representative of Security of Supply Group at the Council of European Energy Regulators (CEER).</p> <p>Lecturer on the Master's Programme on Energy, Telecommunications and Water Economics and Regulation at the Universidad de Barcelona.</p> <p>Lecturer on the Master's programme on the Electricity Sector at the ICAI.</p> <p>Lecturer in economic and energy issues at various business schools (Club Español de la Energía, CESMA, Instituto de Estudios Bursátiles).</p> <p>Institutional Relations and Communications Manager for BP Oil España.</p>



	<p><i>Currently:</i></p> <p>Director General of the Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)</p>
	<p>External Independent Director</p> <p>Juan Iranzo Martín, born November 26, 1956.</p> <p>Graduate in Economic and Business Science from the Universidad Complutense de Madrid.</p> <p>Doctor in Economic Science from the Universidad Complutense de Madrid.</p> <p><i>Formerly:</i></p> <p>Management Control Manager for ENUSA.</p> <p>External Relations Manager and Economist at the Fundación FIES, CECA.</p> <p>Director of Studies at the Instituto de Estudios Económicos (IEE).</p> <p>Director General of the Instituto de Estudios Económicos (IEE).</p> <p>Lecturer in Economic Structure at various universities.</p> <p>Member of the Special Commission for Transparency and Safety in Financial Markets and Listed Companies (Aldama Commission).</p> <p><i>Currently:</i></p> <p>Professor of Applied Economics at UNED.</p> <p>Vice-chairman of the Instituto de Estudios Económicos (IEE).</p> <p>Deacon-Chairman of the College of Economists of Madrid.</p> <p>CUNEF lecturer.</p> <p>Academic member of the Real Academia de Autores.</p> <p>Director, Grupo SANJOSE.</p> <p>Director, FERTIBERIA.</p> <p>Member, Advisory Board, CAP GEMINI.</p> <p>Member, Advisory Board, AGBAR.</p> <p>Chairman of the Club de Consejeros de España.</p>



	<p>Lecturer on the Master's "Advanced Corporate Responsibility Management Programme" at the Instituto de Empresa IE Business School.</p> <p>Member of the Health Advisory Council and the Permanent Council Commission of the Ministry of Health, Social Services and Equality.</p>
	<p>External Independent Director</p> <p>María José García Beato, born May 27, 1965</p> <p>Law Degree, Universidad de Cordoba. State attorney.</p> <p><i>Formerly:</i></p> <p>State Attorney at the High Court of Justice in Madrid.</p> <p>Head of the Legal Services Department of the Data Protection Agency.</p> <p>Spanish representative on the Council of Europe Data Protection Consultative Committee.</p> <p>Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for the CERES (Spanish certification of electronic transactions) project.</p> <p>State Attorney in the Sub-division of the State Legal Services Division.</p> <p>State Attorney in the Communications Secretariat at the Development Ministry.</p> <p>Cabinet Chief at the Ministry of Justice.</p> <p>Director, Infoinvest, S.A.,</p> <p>Director, Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA),</p> <p>Director, Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI),</p> <p>Director, Sociedad Estatal Correos y Telégrafos, S.A.,</p> <p>Director, Banco Guipuzcoano, S.A.</p> <p>Director, Banco CAM, S.A.</p> <p>Undersecretary for Justice.</p> <p>State Attorney in the Audiencia Nacional (National Court) Legal Department.</p> <p>Head of Legal Services, Banco Sabadell.</p> <p>Secretary of the Board of Directors of Retevisión, S.A.</p> <p>Secretary of the Board of Directors of Banco Urquijo, S.A.</p>



	<p><i>Currently:</i></p> <p>Non-director, vice-secretary of the Board of Directors of Banco de Sabadell, S.A.</p> <p>General Secretary and member of the Management Committee of Banco Sabadell, S.A.</p> <p>Secretary of the Board of Directors of Sabadell United Bank (Miami).</p> <p>Trustee of the Fundación Española de Banca para Estudios Financieros (FEBEF).</p> <p>Secretary of the Trustees of the Fundación de Estudios de Economía Aplicada (FEDEA).</p> <p>Member of the advisory council of the publisher Wolters Kluwer España, S.A.</p> <p>Trustee of the Fundación Wolters Kluwer.</p> <p>Advisory Council Member of the Fundación Cajasur.</p>
	<p>Non-director Secretary of the Board of Directors</p> <p>Rafael García de Diego Barber, born July 27, 1951.</p> <p>He was appointed Secretary of the Board of Directors and legal advisor at the Board meeting held on May 4, 1995.</p> <p>Law degree, Universidad Complutense, Master's Degree in Tax Counselling for Businesses, Instituto de Empresa.</p> <p><i>Formerly:</i></p> <p>Lawyer, Loss Department, Zurich, S.A., Lawyer and Secretary to boards of directors of companies in the Inmobiliario Pradisa Group, Lawyer and tax advisor of Ageco, a financial and tax management company of Banco Internacional de Comercio, S.A., Lawyer of the Legal Department of Sociedad Española de Carbón Exterior, S.A. (CARBOEX), Lawyer of the Legal Department and Head of the Legal Department of Red Eléctrica de España, S.A.</p> <p><i>Currently:</i></p> <p>Member of the Madrid Bar Association, Head of the Legal Department of Red Eléctrica de España, S.A. since 1995, Director of the Dutch company Red Eléctrica de España Finance B.V., Joint Director of Red Eléctrica Financiaciones, S.A.U. and Director of the Luxembourg company REDCOR Reaseguros, S.A.</p>



	<p>Non-director Deputy Secretary of the Board of Directors</p> <p>Fernando Frías Montejo, born March 11, 1965.</p> <p>He was appointed Deputy Secretary of the Board of Directors at the meeting held on April 21, 2005.</p> <p>Degree in Law and Certificate in Business Studies, Universidad Pontificia de Comillas (ICADE-E-I).</p> <p><i>Formerly:</i></p> <p>Member of the Legal Department of Red Eléctrica de España, S.A. since 1990 and secretary of the Board of Directors of Infraestructuras de Alta Tensión, S.A., Red de Alta Tensión, S.A. and Tenedora de Acciones de Redesur, S.A.</p> <p><i>Currently:</i></p> <p>Member of the Madrid Bar Association, and member of the Legal Department of Red Eléctrica de España, S.A. since 1990.</p>
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• Attendance at and Failure to Attend Board and Committee Meetings

Set out below are the data on attendance and failure to attend by Company Directors at meetings of the Board of Directors and of the Audit and Corporate Responsibility and Governance Committees in 2012.

○ Board of Directors

There were eighteen (18) absences from the fourteen (14) Board meetings held in 2012, representing an attendance rate of 87.3%.

○ Audit Committee.

Of the ten (10) Audit Committee meetings held in 2012, no Directors failed to attend.

○ Corporate Responsibility and Governance Committee

Of the twenty (20) Corporate Responsibility and Governance Committee meetings held in 2012, no Directors failed to attend.

• Chairman of the Board



- The Chairman of the Board of Directors is also the Chairman of the Company, its Chief Executive and the person responsible for senior management, administration and full representation of the Company.
- Notwithstanding the above, the Board of Directors has, in the Regulations of the Board of Directors, reserved, on a non-delegable basis, the responsibilities and powers that it considers strategic as described in this Chapter. The responsibilities that cannot be delegated cannot be carried out by the Executive Director or the Board Committees.
- The Executive Director is subject to specific checks on his responsibilities by the Board of Directors, from which he must request subsequent ratification regarding urgent decisions that he has had to adopt or, as the case may be, request prior authorization.

• **Directors' Duties**

- The internal corporate governance rules strictly regulate the duties of Directors, in general, and their diligence and loyalty obligations, in particular.
- Directors must act with due diligence, being required to play a proactive role on the Board and on its Committees.
- The Regulations of the Board of Directors also regulate breaches of the corporate governance rules by Directors.

• **Principle of Security and Duty of Loyalty**

- The Regulations of the Board of Directors establish, inter alia, the following obligations on Directors:
 - To gather the relevant information and adequately prepare for meetings of the Board and the Board Committees to which they belong, and regularly attend them.
 - To actively participate in deliberations so that their opinions effectively contribute to decision-making and to perform any specific tasks entrusted to them by the Board of Directors.
 - To prompt the investigation of any irregularity in the management of the Company of which they may become aware, and the monitoring of any risk situation.
 - To request the call of special Board meetings, as the case may be, and gather the information necessary for the efficient performance of their functions.



- To oppose resolutions that are contrary to the law, the Corporate Bylaws or the corporate interest.

• Conflicts of Interest

- Directors must refrain from attending and participating in deliberations that touch on matters in which they have a direct or indirect personal interest.
- Directors must report any potential conflict of interest they may have with the Company and, where there is a conflict, they must refrain from participating in the transaction to which the conflict of interest relates.
- Nominee Directors must disclose to the Board any conflict of interest between the Company and the shareholder that proposed their appointment where the conflict of interest relates to matters submitted to the Board and must refrain from participating in the adoption of the corresponding resolutions.

• Confidentiality

- Directors must maintain secrecy regarding the deliberations of the Board of Directors and the Committees of which they are members.
- Directors must refrain from disclosing any information, data, reports or background information to which they may have access in the discharge of their office, even after they have vacated office.

• Noncompetition

- Directors may not engage in activities that may compete with the Company.
- Directors may not provide their professional services to companies with a corporate purpose that is analogous, in whole or in part, to that of the Company that may give rise to a conflict of interest between them.
- Independent Directors are required to consult the Board of Directors before accepting any executive position with another company or entity.
- Directors are required to report any holdings they may have in companies that engage in any activity that is identical, analogous or complementary to that of the Company or competes to some degree with the Company, as well as any positions or functions exercised at such companies and the performance, for their own account or for the account of another, of activities that are identical, analogous or complementary to the type of activity constituting the corporate purpose.
- The Regulations of the Board of Directors establish a new restriction for Independent Directors, who may not sit on more than two boards of directors of other listed companies .



- **Information not in the public domain**

- Directors may not use Company information that is not in the public domain for private purposes, except with the prior approval of the Board of Directors.

- **Business Opportunities**

Directors may not, for their own benefit or the benefit of related persons or third parties, take direct or indirect advantage of any business opportunity of the Company, unless the opportunity is offered to the Company beforehand, and the Company declines to take it and the Board authorizes the Director to do so, subject to a report by the Corporate Responsibility and Governance Committee.

- **Directors' Portal**

The Directors' Portal is an innovative project that was launched in January 2010 with a view to applying new technologies in the day-to-day work of the members of the Board of Directors and its Committees.

This initiative seeks to place the most modern electronic means at the disposal of the directors to enhance efficiency in the functioning of the Board of Directors and its Committees. The Portal has been designed with the aims of making current processes more efficient, and ensuring the security of information.

The content of the portal is divided into various sections on documentation, distinguishing between documents for Board meetings, documents for the two Committees, other documents of special interest prepared by the Board, various areas within the corporate information of the Company, the main legislation affecting the activities of the Company, all the corporate information of interest to Directors for the discharge of their duties, information on the activities and functioning of the various organizational areas of the Company, information in the press affecting the Company and other information which may be useful for Directors to gain a better understanding of the activity and functioning of the Company and for the performance of their duties as Directors.

The content of the Director's Portal has been expanded on a number of occasions, including full information on Corporate Responsibility and increased corporate information, and there have been a number of technical improvements. This tool is valued highly by the Directors.

The Director's Portal is constantly reviewed to ensure it is always up to date and in order to ensure all possible improvements are made.

- **Evaluation of the Board**



At its meeting on October 25, 2012, the Board of Directors took note of the conclusions and recommendations of the external assessment process of the Board of Directors, its committees and its chairman relating to fiscal year 2011. By the express decision of the Corporate Responsibility and Governance Committee, this assessment process was commissioned from KPMG, specialist external advisors in the area, to give a more objective and independent external opinion of the issues analysed. This report included the following improvement proposals:

- Increase director independence. The report proposes defining independence criteria for directors, and periodically assessing the independence of the directors included in this category formally and publically. The assessment or reassessment process for director independence should, at the least, accompany director appointment and re-appointment proposals, detailing their record and the added value they will bring to the Board of Directors.

- To be more in touch with investors. The Board of Directors should, periodically and formally, collect information to help it understand in greater detail than at present the perceptions of institutional investors and the most important asset managers for the company.

- Dedicate more time to strategy and risks. The Board of Directors should dedicate more time to one of the main functions assigned to it: reviewing, approving and guiding strategy, major operations, budgets, business plans and annual performance targets, and supervising the implementation of the decisions adopted. The report also made the same observation with regard to risks: that more time should be devoted to defining the supervision and approval of risk policies and practices, and annual planning in this area.

- Increased supervision of Senior Management. The performance assessment process for the Company's senior management should be carried out in a more formal and periodic manner, bolstering supervision of aspects relating to the contract conditions of executive directors and members of senior management.

- Bring compensation more into line with the interests of investors and external expectations. The Company's compensation system for the Board and senior management should be reviewed in the light of the recommendations of the International Corporate Governance Network, in accordance with the criteria established by the investors most important to the Company, and the Company's policy in this area should be set out.

- Two roles, two people. The Company should consider whether it might be appropriate to separate the functions of the Chairman of the Board of Directors from those of the Executive Director of the Company, as these are currently performed by the same person. The Company should assess the value of appointing a lead independent director or a vice-chairman to act as such.



As in the previous year, and as expressly requested by the Corporate Responsibility and Governance Committee, the self-assessment process of the Board of Directors of Red Eléctrica Corporación for 2012 was carried out with the support of the independent expert advisors KPMG. This process includes personal interviews with the directors in the presence of Company employees. The process is now in its final stage.

There were a number of major changes to the Company's Board of Directors in 2012. On December 31, 2012, only four of the eleven directors who had been in position 12 months previously were still in post. KPMG regards this as making the process particularly rich as, in its opinion, it has enabled the Company to combine the experience of the longest-serving directors with the fresh outlook and approach of the directors who joined during the year.

The main development in the assessment process, according to KPMG, was the introduction of a section specifically dedicated to assessing the performance of the Company's chief executive. As a result, the Chairman of the Board of Directors was assessed in two ways: firstly, the directors assessed his year as head of the Company's governing body; and secondly, they assessed his performance as the Company's chief executive. In both regards, the Executive Chairman's performance was classified as satisfactory.

In the assessment process, the directors highlighted the Board's rigorousness, independence of judgement and the commitment to the most advanced corporate governance practices. They also stated their conviction of the importance of their responsibilities for the Company's reputation and the confidence of capital markets. Many of the directors stated a desire to seek opportunities to intensify interaction between the Board of Directors and investors, as recommended in some international best practices.

The interviews also threw light on improvement proposals related to the day-to-day operations of the Board of Directors; these are the result of the continuous improvement that, following the 2012 changes, is reinforcing the dynamics of the Board's operations.

• **Board compensation policy**

The main elements and aspects of the Board's compensation policy have been described in Chapter I of this Title II, to which readers are referred.

As usual, the Annual Report on Directors' Compensation is provided to shareholders and investors separately from this Annual Corporate Governance Report; this sets out in detail full information on the compensation of the Board of Directors and of Senior Management.

• **Committees of the Board of Directors**



Since the Company's listing on the securities markets in 1999, its financial statements and economic and financial information have been prepared under the supervision and oversight of the Audit Committee, leading to greater transparency and reliability.

Pursuant to the Regulations of the Board of Directors and the Corporate Bylaws, there is a specific Committee for corporate governance matters called the Corporate Responsibility and Governance Committee.

Both Committees constitute support committees for the Board of Directors and have not been expressly delegated any powers by the latter. At its meeting on April 26, 2012, the Board of Directors, on the proposal of the Chairman, approved the renewal of the Board of Directors Committees.

• Audit Committee

The powers, organization and functioning of the Audit Committee are governed by the Corporate Bylaws and by the Regulations of the Board of Directors of RED ELÉCTRICA, adapted to current commercial legislation and the recommendations of the Conthe Code.

Throughout 2012, the Committee was comprised of External Directors, with a majority of Independent Directors. At its meeting on April 26, 2012, the Board of Directors, on the proposal of the Chairman, approved the appointments of Paloma Sendín de Cáceres, María Ángeles Amador Millán and Fernando Fernández Méndez de Andrés as members of the Committee for a term of three years. At a meeting held on the same day, the Audit Committee appointed Ms. Sendín de Cáceres as its Chairwoman.

The composition of the Audit Committee at December 31, 2012 was as follows:

Director	Position	Type of Director
Paloma Sendín de Cáceres	Chairwoman	External Independent
María Ángeles Amador Millán	Member	External Independent
Fernando Fernández Méndez de Andrés	Member	External Nominee (SEPI)

Chapter IV of Title III of this document contains the Annual Report on the Activities of the Audit Committee for fiscal year 2012.

• Corporate Responsibility and Governance Committee



In accordance with best international corporate governance practices and particularly those indicated in the Conthe Code, in 2007 the Company's Board of Directors changed the name of the Committee to the Appointments, Compensation and Corporate Governance Committee. Pursuant to the Corporate Bylaws it was assigned functions relating to the corporate governance of the Company, among others.

In 2009, the Committee carried out a review of the Regulations of the Board of Directors that led to the approval of a new set of Regulations at the meeting held on January 28, 2010. Some of the most notable amendments approved included the change of name to the Corporate Responsibility and Governance Committee and the express allocation to the Committee of broad powers in the area of corporate responsibility and risk control.

In early-2012, the Corporate Responsibility and Governance Committee consisted of four directors, of whom three were external and one executive. Of the external directors, two were independent and one was a nominee.

On March 8, 2012, the Board of Directors agreed the removal of Luis M^a Atienza Serna as Chairman of the Board of Directors and Chief Executive of the Company, and accepted his resignation as a director. At the same meeting, the Board of Directors approved the appointment of the director José Folgado Blanco as the Chairman of the Board of Directors and the Company's Chief Executive; however, he did not join the aforementioned Committee as a member.

This major change in the composition of the Committee took place following the Annual Shareholders' Meeting held on April 19, 2012, which appointed 6 new directors to the 11-member Board, as described below.

At its meeting on April 26, 2012, the Board of Directors, on the proposal of the Chairman, approved changing the number of members of the Corporate Responsibility and Governance Committee from 4 to 3. To this end, it appointed Juan Iranzo Martín, Carmen Gómez de Barreda Tous de Monsalve and Alfredo Parra García-Moliner as Committee members for a term of 3 years. The removal of the chief executive from membership of the Corporate Responsibility and Governance Committee is particularly significant, fostering greater independence for the Committee in its decision making, in accordance with international corporate governance practices. In addition, on April 26 the Corporate Responsibility and Governance Committee appointed Iranzo Martín as its Chairman.

At 2012 year-end and at the date of approval of this Report, the composition of the Committee was as follows:



Director	Position	Type of Director
Juan Iranzo Martín	Chairman	External Independent
Carmen Gómez de Barreda Tous de Monsalve	Member	External Independent
Alfredo Parra García-Moliner	Member	External Nominee (SEPI)

All three members of the Corporate Responsibility and Governance Committee are external directors, two of whom are independent, thus having a voting majority on the Committee.

Chapter IV of Title III of this document contains the Annual Report on the Activities of the Corporate Responsibility and Governance Committee for fiscal year 2012.

CHAPTER V.-SENIOR MANAGEMENT

The persons holding senior management positions at the Company at December 31, 2012, excluding the chief executive, were as follows:

Name	Position
Carlos Collantes Pérez-Ardá	Director-General of Transmission
Andrés Seco García	Director-General of System Operation

Carlos Collantes Pérez Ardá held the position of Director-General of Transmission throughout 2012.

Andrés Seco García has occupied the position of Director-General of System Operation since May 7, 2012, replacing the previous Director-General of System Operation, Alberto Carbajo Josa.

Esther M^a Rituerto Martínez performed the role of Director-General of Administration and Finance until December 12, 2012.

Article 16 of the Regulations of the Board of Directors establishes, among the basic responsibilities of the Corporate Responsibility and Governance Committee, that of informing about any appointments and removals of senior executives of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company, that the Chairman



proposes to the Board of Directors. In virtue of the above, the Committee reported the corresponding changes.

In its organisational structure, the aforementioned directors report directly to the chief executive and chairman of the Company.

The compensation policy applicable to these executives aims to promote the achievement of the strategic objectives of value creation at the Company by attracting, retaining and motivating the best talent available in the market.

Compensation for the Company's senior executives is based on the principles of moderation, actual dedication and linkage to the results of the Company.

The annual reports on the compensation policy for the Board approved by the Board of Directors and by the Annual Shareholders' Meetings in recent years present information on the total compensation paid to these executives.

As regards compensation for fiscal year 2012 for these Directors, please see the Annual Report on Directors' Compensation, which includes information on senior executives.

CHAPTER VI.-RISK POLICY AND INTERNAL CONTROL SYSTEMS

General aspects

The purpose of the Risk Policy of the Red Eléctrica Group, approved by the Board of Directors on July 24, 2008, is to establish principles and guidelines to ensure the systematic identification, analysis, assessment, management and control of material risks that may affect the Red Eléctrica Group's objectives and activities, applying uniform criteria, within the established risk limits.

Material risks of the Red Eléctrica Group are those that may significantly affect the overall objectives of the Red Eléctrica Group, related to:

- Sustained creation of value over time.
Sustained profit growth, which must allow appropriate returns for investors and enable the company to implement its strategy.
- The continuity and quality of the energy supply in the electricity systems.
The achievement of this objective involves the management by the Spanish System Operator and is dependent on the reliability and availability of the transmission network.
- The construction of the electricity transmission infrastructure network necessary to meet future needs.



Red Eléctrica, as the sole transmission company of the Spanish electricity system, must design, fulfil the formalities for and construct the facilities specified by energy planning. This overall objective must be achieved on a cost-effective basis.

- The compatibility of the above objectives with social and environmental concerns.

This Policy establishes criteria on the acceptable level of risk for each of the overall objectives, which may be summarized as follows: all material risks that could jeopardize achievement of the overall objectives must have a low probability/impact value, to the extent that these risks can be managed. Steps must be taken to ensure that any risks that do not meet this value are lowered to such level.

The general guidelines contained in the Risk Policy are as follows:

- Risk management must be fundamentally proactive and also geared towards the medium and long term, taking into account possible scenarios in an ever more globalized environment.
- In general, risks must be managed according to the relationship between the importance of the risk (probability/impact) and the investment and resources necessary to reduce it.
- Notwithstanding the above, the impact the risks may have on the electricity system itself must also be taken into account with respect to activities relating to the electricity system.
- Processes must be designed with efficiency and efficacy in mind and contemplate controls to mitigate risks, taking the form of systems based on international standards (good practices) that are periodically verified and improved.
- Contingency plans must be established to reduce the impact of material risks.
- The insurance necessary to cover any losses that may occur must be arranged.

The most significant risks to which the Group is exposed, and which form part of the risk control system, are:

- a) Regulatory, since the principal business activities of the Group are subject to regulation,



- b) Operational, basically arising from its assigned activities within the electricity system and the requirement to care for and protect the natural environment,
- c) Market, since most revenues, as well as certain expenses, may be influenced by variables such as inflation and interest rates, and
- d) Business and Credit (or counterparty), albeit to a lesser extent due to the lesser weight of the subsidiaries in the overall Group and the existing regulation regarding invoicing and collection for transmission and operation activities.

The risk control system covers both risks from internal processes and risks from the environment in which it operates, covering all activities performed by the Group, evaluating the impact of each risk on four aspects: strategy, the income statement, the electricity system and reputation.

Of all risks monitored by the system, 9% relate to regulatory risks, 80% to operational risks and 11% to business, market or credit risks. These figures are consistent with a Group whose fundamental mission is to ensure the functioning of the electricity system as a whole in a heavily regulated environment and with the level of solvency supported by the ratings given to it by international rating agencies.

An independent review of the design of the risk control system was carried out in 2011 by specialist consultant Ernst & Young, based on the ISO 31000 Standard (Risk Management. Principles and Guidelines). The conclusion issued by the firm on January 14, 2012, is as follows:

“As a result of our review, we can conclude that the design of the Risk Management System of Red Eléctrica Corporación applicable to its different activities is in line with the principles established in the ISO 31000 Standard on *Principles and Guidelines*.”

Furthermore, it should be noted that in 2007 Red Eléctrica embarked on a project to align, review and improve its System for Internal Control over Financial Reporting (ICFR), with the basic aim of improving the efficiency and security of processes for preparing economic and financial information on the Company, adopting international best practices early on, on a voluntary basis. The ICFR is detailed in one of the sections of Annex II to this Annual Corporate Governance Report; the aforementioned Annex includes additional information to the current Annual Corporate Governance Report in accordance with Article 61 bis of Securities Market Law 24/1998, of July 29, 1988, as amended by Sustainable Economy Law 2/2011, of March 4, 2011.

As expressly recognized in the Board regulations, the **Board of Directors** is responsible for approval of the integral risk management policy of the Company and of the Group, and knowledge and periodic monitoring of internal control, prevention and reporting systems.



The Board reviews the risk control system and material risks twice a year, notwithstanding the information it receives on a regular basis from the Audit Committee as part of the ongoing monitoring process carried out by the Committee.

The **Audit Committee** is responsible for the periodic supervision of the risk management system, to ensure that the main risks are adequately identified, managed and disclosed.

The **Management Committee**, comprised of executives from the key strategic areas of the Company, is responsible for:

- Promoting implementation of the integral risk management policy.
- Monitoring the Risk Map, and agreeing on the appropriate actions to facilitate the achievement of the global objectives.

The risk control function is centralised in the **Global Risk Control and Regulation Department**, which reports to the Office of the Chairman.

Processes

The RED ELÉCTRICA Group constantly designs and implements processes to ensure its compliance with the various regulations and to mitigate or reduce the related risks.

These processes have been integrated into systems structured according to a set of internal standards and procedures based on international standards (ISO 9001, ISO 14001 and OHSAS 18001), which are subject to systematic audits of the adequacy of their design and compliance, and include mechanisms for controlling the objectives that they must meet.

Projects

All proposals for significant projects from an economic or strategic point of view include the corresponding risk analysis, allowing risks to be evaluated when the related decisions are to be made. These decisions are made by the competent corporate body according to the established limits, with the most important projects requiring the approval of the Board of Directors.

Verification

The design and adaptation to existing regulations of, and correct compliance with, the internal rules and procedures is systematically reviewed by the Internal Audit and Risk Management functions, which form an integral part of the Global Risk Regulation and



Control Department , and these procedures are also supervised by the Audit Committee.

Internal rules and their compliance are also subject to external audits on a periodic basis by international ISO and OHSAS standards certification bodies.

Self-evaluation of legal compliance

An internal rule was approved and implemented in 2012 which obliges all units of the organization to establish mechanisms for the identification, dissemination and updating of the legislation applicable to them, and to carry out a yearly self-evaluation of their compliance.

CHAPTER VII.- RELATED-PARTY TRANSACTIONS

In relation to the Directors, Article 29.3 a) of the Regulations of the Board of Directors establishes that Directors must notify the Board of Directors, through the Chairman or the Secretary, of any conflict of interest to which they are subject and refrain from attending and participating in deliberations affecting matters in which they have a direct or indirect personal interest or in which there is any sign of a conflict of interest. Pursuant to that Article, a personal interest will also be considered to exist when the matter affects a person related to the Director or to a company with which he has an employment or professional relationship or at which he has an executive position or a significant shareholding.

For the purposes of the preceding paragraph, 'related persons' are those defined as such from time to time in the applicable legislation.

In accordance with the provisions of Article 29.3 b) of the Regulations of the Board of Directors, Nominee Directors must disclose to the Board of Directors any conflict of interest between the Company and the shareholder that proposed their appointment where said conflict affects matters submitted to the Board, and they must refrain from participating in the adoption of the corresponding resolutions.

In addition, Article 2 of the Code of Conduct on the Securities Market includes within its scope of application Directors, the Secretary and Deputy Secretary of the Company's Board of Directors, executives (as defined in Chapter I of the Regulations of the Board of Directors) and the persons expressly designated by the Oversight Body created pursuant to the Code.

Under Article 7 of the Internal Code of Conduct on the Securities Market, persons subject or temporarily subject thereto must generally attempt to avoid situations of direct conflict of interest or conflicts concerning persons related to them and must inform the Oversight Body of any situations of conflict of interest that may reasonably



arise within fifteen (15) days of such situations coming to their attention, so that the Oversight Body may adopt the corresponding decisions in advance. Directors must give notice of the situations described in the preceding paragraph through the Office of the Secretary of the Board of Directors.

Persons subject or temporarily subject to the Code must keep up to date the information regarding conflicts of interest they have disclosed, reporting any such changes as may occur. Without prejudice to the obligations specified in the preceding paragraph as regards conflicts of interest, Directors must comply with the requirements contained in the Corporate Bylaws and in the Regulations of the Board of Directors and, in general, with all requirements arising from the corporate/commercial legislation on corporations.

The Oversight Body will keep an up-to-date itemized Register of the conflicts of interest disclosed by the various persons subject or temporarily subject to the Code, and will adopt the appropriate security measures for its safekeeping and storage. In any event, access to the Register will be restricted.

It should be noted that for the above purposes, in accordance with Article 11 of the Internal Code of Conduct on the Securities Market, the Oversight Body is the Directorate-General of Administration and Finance, which will act in collaboration with the Secretary of the Board of Directors as regards any legal issues resulting from the application or interpretation of the Code. In addition, the Oversight Body has been entrusted with the general functions of ascertaining, registering, disseminating and monitoring compliance with the obligations and duties established in the Internal Code of Conduct. The Oversight Body will have all necessary powers to perform the duties entrusted to it in the Internal Code of Conduct and must periodically report to the Audit Committee on the degree of compliance with the Code and on any incidents that may occur.

The Audit Committee is responsible for supervising compliance with the Internal Code of Conduct and the performance of the functions of the Oversight Body, the person responsible for the material transaction and the Office of the Secretary of the Board of Directors contemplated therein, as well as the internal resolution of any such questions and conflicts raised by parties subject or temporarily subject to the Code as may be submitted to the Committee by the Oversight Body. The Audit Committee will evaluate compliance with the Internal Code of Conduct on an annual basis and will adopt any appropriate measures for its optimum implementation and improvement. It is also responsible for proposing to the Corporate Responsibility and Governance Committee, for referral to the Board of Directors, any amendments it deems necessary in light of the Board's commitment to continuous adaptation, as well as the adoption of corporate governance best practices in the area and of the applicable legislation

In relation to Company executives, Article 2.1.3 of the Internal Code of Conduct on the Securities Market establishes that Company executives, as defined in Chapter 1, are deemed to be subject to the Code and, accordingly, will be subject to potential conflicts of interest. Article 5.2.2 of the Internal Code provides that, when circumstances so require, the Oversight Body may decide to include as persons subject to the Code, on



a temporary basis, any persons participating in a material transaction that have access to inside information. The parties affected will be given individual written notice of their inclusion on or exclusion from those lists.

In accordance with the provisions of Article 31 of the Regulations of the Board of Directors, the Board of Directors formally reserves the right to be informed of any material transaction of the Company with a significant shareholder, unless as a result of its nature and conditions it falls within the jurisdiction of the Shareholders' Meeting.

In May 2010, at the proposal of the Audit Committee, the Board of Directors approved a policy on controlling related-party transactions and defined objective parameters for controlling related-party transactions, material or otherwise, recurring annual related-party transactions, and related-party transactions requiring mandatory notification to the markets. The Audit Committee monitors this policy annually.

TITLE III- FISCAL YEAR 2012 AT RED ELÉCTRICA

CHAPTER I.- PRINCIPAL CORPORATE RESOLUTIONS

The principal corporate resolutions adopted by the Company in 2012 as regards corporate governance were as follows:

1. The Company's 2011 Annual Corporate Governance Report was approved following a favourable report by the Corporate Responsibility and Governance Committee at the Board meeting held on February 27, 2012.
2. At its meeting on March 8, 2012, the Board of Directors agreed to remove the chairman of the Board of Directors and first Executive Director of the Company, Luis M^a Atienza Serna, and accepted his resignation as a Director of the Company. At the same meeting, the Board of Directors approved the appointment of the director José Folgado Blanco as the Chairman of the Board of Directors and the Company's First Executive Director.
3. At a meeting held on March 12, 2012, the Board of Directors also approved all the proposed resolutions and reports to be submitted to the Annual Shareholders' Meeting for fiscal year 2011, which was called at such meeting.
4. At the same meeting referred to above, the Board of Directors approved the procedure for proxies, voting and information by remote means at the Annual Shareholders' Meeting for fiscal year 2011.
5. Furthermore, at the same meeting referred to above, the Board of Directors approved the regulations on the Functioning of the Shareholders' Electronic Forum for 2011.
6. The following resolutions were adopted, as separate and independent items on the agenda, by the Annual Shareholders' Meeting held on April 19, 2012:



- To approve the Financial Statements (balance sheet, income statement, statement of changes in equity, cash flow statement and notes to financial statements) and the management report of Red Eléctrica Corporación, S.A. for the year ended December 31, 2011.
- To approve the Consolidated Financial Statements (consolidated balance sheet, consolidated income statement, consolidated overall income statement, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements) and the Consolidated Management Report of the Consolidated Group of Red Eléctrica Corporación, S.A. for the year ended December 31, 2011.
- To approve the distribution of income proposed by the Board of Directors at the meeting held on February 27, 2012 and, as a result, distribute 2011 income.
- To approve the management by the Board of Directors of Red Eléctrica Corporación, S.A. in 2011.
- - To approve the re-appointment of José Folgado Blanco as the chief executive.
 - To approve the appointment of Alfredo Parra García-Moliner as a nominee director in representation of the shareholder Sociedad Estatal de Participaciones Industriales (SEPI).
 - To approve the appointment of Francisco Ruiz Jimenez as nominee director, in representation of the shareholder Sociedad Estatal de Participaciones Industriales (SEPI).
 - To approve the appointment of Fernando Fernández Méndez de Andés as a nominee director in representation of the shareholder Sociedad Estatal de Participaciones Industriales (SEPI).
 - To approve the appointment of Paloma Sendín de Cáceres as an independent director.
 - To approve the appointment of Carmen Gómez de Barrada Tous de Monsalve as an independent director.
 - To approve the appointment of Juan Iranzo Martín as an independent director
- To approve the appointment of the auditors of the Parent Company and of the Consolidated Group.
- To approve the modifications to the Corporate Bylaws to adapt them to recent legislative changes relating to listed companies and other stylistic or order changes to make the text of the Corporate Bylaws more precise: Modification of Articles 11 (“Annual Shareholders’ Meeting”), 12 (“Types of Shareholders’ Meetings”), 13 (“Calling the Shareholders’ Meeting”), 15 (“Right to information and attendance of Shareholders’ Meetings”), 17 (“Presiding Panel, deliberations”), 17 Bis (“Remote voting”), 21 (“Functioning of the Board of Directors”) and 32 (“Regulations and winding up”) of the Corporate Bylaws, and to remove the submission to arbitration and replace it with submission to the Courts and Tribunals: Removal of article 34 (“Conflict resolution”) from the Corporate Bylaws.



- Approval of modifications to the Regulations of the Shareholders' Meeting to adapt them to the latest legislative changes relating to listed companies and other stylistic or order changes to make the text of the Regulations of the Shareholder's Meeting more precise: Modification of articles 5 ("Calling the Shareholders' Meeting"), 6 ("Shareholder rights"), 8 ("Shareholder rights to information"), 10 ("Representation") and 15 ("Constitution, deliberation and adoption of resolutions"), in sections 15.4 "Information request", 15.5 "Debate", 15.8 "Voting", 15.9 "Adoption of resolutions" and adding section 15.11 "Publication of resolutions on the website", of the Regulations of the Shareholders' Meeting.
 - To approve the following authorizations for the derivative acquisition of treasury stock, voting separately on each of them:
 - Authorization for the derivative acquisition of treasury stock by the Company or by companies of the Red Eléctrica Group, and for the direct award of treasury stock to employees and Executive Directors of the Company and of the companies of the Red Eléctrica Group, as compensation.
 - Approval of a Compensation Plan for members of Management and the Executive Directors of the Company and of the companies of the Red Eléctrica Group.
 - Revocation of previous authorizations.
 - In relation to the Board compensation policy:
 - Approval of the Annual Report on the compensation of the directors of Red Eléctrica Corporación, S.A.
 - Approval of the compensation of the Board of Directors of Red Eléctrica Corporación, S.A. for 2011.
 - Ratification of the creation of a Company website.
 - To delegate the broadest powers to be exercised on a several basis to the Chairman and to each of the members of the Board of Directors, and to the Secretary and Deputy Secretary of the Board, so that they may implement, execute and register each and every one of the resolutions adopted by the 2011 Shareholders' Meeting.
 - Information to the Shareholders' Meeting on the 2011 Annual Corporate Governance Report of Red Eléctrica Corporación, S.A.
7. At its meeting on April 26, 2012, the Board of Directors approved the renovation of the Audit Committee and the Corporate Responsibility and Governance Committee



8. At its meeting held on September 27, 2012, the Board of Directors, as part of its ongoing commitment to the adoption of best Corporate Governance practices, approved the Report on Gender Diversity submitted to it by the Corporate Responsibility and Governance Committee . This Report was published on the Company's website.
9. At its meeting held on November 29, 2012, the Board of Directors of Red Eléctrica Corporación, S.A, agreed the appointment of María José García Beato as an independent director until the next Shareholders' Meeting, in order to fill the Board of Directors vacancy resulting from the resignation of Francisco Javier Salas Collantes agreed on May 31, 2012.

CHAPTER II. - MAIN AWARDS AND RECOGNITION.

There follows a list of the main awards and recognition received by the Company in fiscal year 2012 in the area of corporate governance; although some of these were obtained in the context of distinction in the area of corporate responsibility, the corporate governance aspect was acknowledged.

1. Inclusion, for the seventh year running, in the renowned Dow Jones Sustainability World Index (DJSI) with a score of 79 points out of 100.
2. "RobecoSAM Bronze Class" distinction of the Sustainability Yearbook 2013, a publication that distinguishes companies that stand out for their actions in corporate responsibility and sustainability and which form part of the Dow Jones Sustainability Index.
3. Achieving an overall score of 4.5 out of a maximum of 5, and a relative score of 100 out of 100, establishing itself as the leading company in the utilities sector worldwide in the FTSE4Good index. This index, specialized in sustainability, includes listed companies throughout the world which meet the requirements pre-established by the stock exchange index.
4. Inclusion for the second consecutive year in the STOXX Global ESG Leaders family of indexes, which offers a representative sample of leading companies worldwide in environmental, social and good governance standards. In creating this index, consideration is given to the rankings of noteworthy companies in each area, that is, the STOXX Global ESG Environmental Leaders, the STOXX Global ESG Social Leaders and the STOXX Global ESG Governance Leaders sub-indexes.
5. In 2012, the Company continued its presence in the ECPI Ethical EMU Equity indexes, which include the 150 companies with the largest capitalisation within the EMU (Economic and Monetary Union) for their responsible practices in social, environmental and corporate governance matters. The Company has been present in the index since 2008.



6. Third place in the 2012 Reporta Report for the quality of financial and non-financial public information of companies in the General Index of the Madrid Stock Exchange (IGBM); the Company was highlighted for its good transparency practices in relation to corporate governance information.
7. First place, for the fifth consecutive year (the first place having been obtained in a total of 6 editions), according to the study "Responsibility culture, policies and practices of the IBEX 35 companies", elaborated by the Observatorio de la Responsabilidad Social de las Empresas (RSE).

CHAPTER III.-MATERIAL EVENTS DISCLOSED TO MARKETS

Immediately after their approval by the Board of Directors, the call notice and proposed resolutions and other documentation relating to the Shareholders' Meeting are notified to the CNMV and published on the Company website.

On the same day as the Meeting is held or on the immediately following business day, the Company sends the text of the approved resolutions to the CNMV by means of the relevant disclosure of a material event.

Once they have been notified to the CNMV, the text of the approved resolutions is also made available on the Company website.

To promote the right to information of shareholders of the Company abroad, who represent nearly 70% of all shareholders, all the documentation that is submitted for information purposes and for approval at the Shareholders' Meeting, including the Annual Corporate Governance Report, is translated into English and published in English on the Company's website, on the same day that the material events in question are published.

The material events notified to the CNMV in 2012 were as follows:

1. Information on dividends

On January 2, 2012, the Company reported that it applied the withholding approved in Royal Decree-Law 20/2011, of December 30, on urgent budget measures, in the payment of its interim dividend for 2011. Red Eléctrica held the interim dividend unchanged at 0.6764 euros per share, only changing the withholding by 0.142044 euros per share and the net amount receivable to 0.534356 euros per share.

2. Credit ratings

On February 8, 2012, the Company reported that the ratings agency Standard & Poor's had reduced its long and short-term ratings for Red Eléctrica Corporación, S.A. and Red Eléctrica de España, S.A.U, by one notch to A+ and A-1 from AA- and A-1+, maintaining a negative outlook.

3. Initial public offerings and sale of notes and other instruments



On February 13, 2012, the Company reported that it had issued bonds on the euromarket through its subsidiary Red Eléctrica Financiaciones, S.A.U. with a maturity of eight (8) years and a value of two hundred and fifty (250) million euros.

4. Call notices for meetings or information events

On February 15, 2012, the Company reported that it will publish its results and make a presentation on February 28.

5. Interim financial information

The Company sent information on the results for the second half of 2011 on February 28, 2012.

6. Information on dividends

On February 28, 2012, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A. at its meeting on February 27, 2012, had agreed to propose to the Annual Shareholders' Meeting payment of a dividend on its 2011 results.

7. Information on results

On February 28, 2012, the Company published the results of the Red Eléctrica Group for 2011.

8. Strategic plans, forecasts and presentations

On February 28, 2012, the Company submitted its 2011-2015 Strategic Presentation.

9. Annual Corporate Governance Report

On February 28, 2012, the Company submitted its Annual Corporate Governance Report for 2011.

10. Composition of the Board of Directors.

On March 2, 2012, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A, at a meeting held on February 27, 2012, agreed to accept the resignation of Rafael Suñol Trepas as a Director.

11. Composition of the Board of Directors.

On March 8, 2012, the Company reported that, at a meeting held that day, the Board of Directors had agreed the removal of Luis M^a Atienza Serna as Chairman of the Board of Directors and Chief Executive of the Company, and accepted his resignation as a director.

12. Announcement of Shareholders' Meeting and proposed resolutions



On March 15, 2012, the Company published a call notice for the Annual Shareholders' Meeting and the proposed resolutions.

13. The Shareholders' Meeting call notice. Proposed appointment of Directors.

On March 23, 2012, the Company reported that the Board of Directors, at a meeting held on March 22, 2012, had agreed to render ineffective the proposed resolutions relating to sections four, five and six of point Five ("Re-election and appointment of the Company's Directors") from the Agenda of the Company's Annual Shareholders' Meeting. At the same meeting, the Board of Directors, based on a report from the Corporate Responsibility and Governance Committee, in the case of the proposed appointment of the nominee director, and at the proposal of that Committee in the case of the proposed appointments of independent Directors, agreed to approve the proposed resolutions relating to sections four, five and six of point Five ("Re-election and appointment of the Company's Directors") for submission to the Company's next Annual Shareholders' Meeting.

14. Call notices and resolutions of shareholders' meetings and general assemblies

On April 20, 2012, the Company communicated to the CNMV the full wording of the resolutions adopted at the Annual Shareholders' Meeting held on April 19, 2012 at the proposal of the Board of Directors of Red Eléctrica de Corporación, S.A.

15. Interim financial information

The Company sent information on the results for the first quarter of 2012 on April 27, 2012.

16. Information on results

The Company reported its results for the first quarter of 2012 on April 27, 2012.

17. Composition of the Board of Directors.

On April 27, 2012, the Company reported that the Board of Directors of Red Eléctrica Corporación S.A., at a meeting on April 26, 2012, had renewed its Audit Committee and Corporate Responsibility and Governance Committee .

18. Transfers and acquisition of treasury stock.

On May 2, 2012, the Company reported on actions announced by the Government of Bolivia relating to the company Transportadora de Electricidad, S.A. (TDE).

19. Credit ratings

On May 4, 2012, the Company reported that the ratings agency Standard & Poor's had reduced its long and short-term ratings for Red Eléctrica Corporación, S.A. and Red Eléctrica de España, S.A.U, to 'A-' and 'A-2', maintaining a negative outlook.

20. Composition of the Board of Directors.



On June 1, 2012, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A. had agreed to accept the resignation tendered by Francisco Javier Salas Collantes as an independent director of that Company.

21. Credit ratings

On June 18, 2012, the Company reported that the ratings agency Moody's had cut its long-term rating of Red Eléctrica de España and its subsidiaries by three notches, to 'Baa2' from 'A2', and was keeping it under review.

22. Loans, credit facilities and guarantees

On June 19, 2012, The Company reported that Red Eléctrica de España, S.A.U and the European Investment Bank (EIB) had agreed a loan of 175 million euros to finance the Spanish side of the electricity interconnection between Spain and France.

23. Interim financial information

The Company sent information on the results for the first half of 2012 on July 27, 2012.

24. Information on results

The Company sent information on the results for the first half of 2012 on July 27, 2012.

25. Others related to corporate governance.

On July 27, 2012, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A, at its meeting on July 26, 2012, had agreed to modify its Internal Code of Conduct on the Securities Market.

26. Others on financial instruments.

On September 20, 2012, the Company reported that, through its subsidiary Red Eléctrica Financiaciones, S.A.U., it had carried out a bond issue in the euromarket, under the Guaranteed Euro Medium Term Note Programme (EMTN programme).

27. Credit ratings

On October 15, 2012, the Company reported that the ratings agency Standard & Poor's had reduced its long and short-term ratings for Red Eléctrica Corporación, S.A. and Red Eléctrica de España, S.A.U, from A- and A-2 to BBB and A-2, maintaining a negative outlook.

28. Credit ratings

On October 19, 2012, the Company reported that the ratings agency Moody's had confirmed its rating of Red Eléctrica de España, S.A.U. as Baa2, maintaining a



negative outlook. This confirmation is the result of recent action on the Kingdom of Spain.

29. Interim financial information

The Company sent information on the results for the third quarter of 2012 on October 26, 2012.

30. Information on results

The Company sent information on the results for the third quarter of 2012 on October 26, 2011.

31. Composition of the Board of Directors.

On November 30, 2012, the Company reported the appointment of a new independent director for Red Eléctrica Corporación, S.A., María José García Beato, until the next Shareholders' Meeting, in order to fill the Board of Directors vacancy resulting from the resignation of Francisco Javier Salas Collantes.

32. Information on dividends

On December 20, 2012, the Company reported that the Board of Directors of Red Eléctrica Corporación, S.A, at its meeting on December 20, 2012, had agreed to distribute an interim dividend for 2012.

CHAPTER IV. ANNUAL REPORTS ON BOARD COMMITTEE ACTIVITIES

The 2012 Annual Reports on the Activities of the Corporate Responsibility and Governance Committee and of the Audit Committee are reproduced in full below.

REPORT ON THE ACTIVITIES OF THE CORPORATE RESPONSIBILITY AND GOVERNANCE COMMITTEE IN 2012

1. INTRODUCTION.

The Committee's Action Plan for 2013, as provided in Article 16.6 a) of the Board Regulations, provides for the preparation of an annual report on the activities carried on, to be incorporated into the Annual Corporate Governance Report.

2. STRUCTURE, COMPOSITION AND FUNCTIONS

2.1. Structure and functions



Article 24.2 of the Corporate Bylaws and Article 15 and 16 of the Regulations of the Board of Directors govern the structure, composition and functions of the Corporate Responsibility and Governance Committee.

The Committee is assigned powers regarding the appointment and removal of Directors and senior executives, their compensation, compliance with Director's duties and observance of corporate governance principles and rules, and other aspects of corporate responsibility policy.

The Committee meets as often as is appropriate for the sound performance of its functions. In any event, the Committee must meet at least once every quarter, whenever called by its Chairman or so requested by two of its members, and whenever the Board of Directors or its Chairman requests that a report be issued or proposals be adopted.

Article 15.5 of the Regulations of the Board of Directors provides that meetings may be called, and the associated documentation sent, by telematic means that guarantee due security and confidentiality for the call notice and the related documentation.

The call notice, including the agenda, will be sent by the Committee Chairman or Secretary to each of its members at least three days in advance of the date scheduled for the meeting, unless the meeting needs to be called sooner for reasons of urgency.

Article 15.5 of the Board Regulations allows Committee meetings to be held for reasons of urgency and on an exceptional basis by conference call, videoconferencing or any other remote means of communication that enables them to be held, provided that all Committee members agree to it.

Pursuant to article 15, the Committee may be constituted with the attendance of the majority of its members and will adopt decisions or recommendations by a majority vote, which decisions or recommendations must be recorded in the Minutes at the end of the meeting. In order to better perform its duties, the Committee may propose to the Board of Directors that advice be sought from independent professionals and may access any type of Company information or documentation that it may require to perform its functions.

2.2. Composition.

The Regulations of the Board of Directors provide that the Corporate Responsibility and Governance Committee will be comprised of a minimum of three and a maximum of five members, as determined by the Board, with a majority of External Directors and at least half of its members being Independent Directors. The Chairman of the



Committee will be an Independent Director elected by its members and the Committee Secretary is the Secretary of the Board of Directors.

Committee members are appointed and removed by the Board of Directors at the proposal of the Chairman of the Board. Committee members hold office for a period of three years, may be reappointed and stand down when they cease to be Directors or when so resolved by the Board of Directors, subject to a report by the Corporate Responsibility and Governance Committee. The Chairman is appointed by the Committee for a period of three years and may be reappointed after one year has elapsed since he vacated office.

At 2012 year-end and on the date of approval of this Report, the Corporate Responsibility and Governance Committee was composed of three Directors: two external independent directors and one nominee director.

There were a number of significant changes to the composition of the Corporate Responsibility and Governance Committee in 2012. The first of these took place on March 8, 2012, when the Board of Directors agreed to the removal of Luis M^a Atienza Serna as Chairman of the Board of Directors and Chief Executive of the Company, and accepted his resignation as a director. At the same meeting, the Board of Directors approved the appointment of the director José Folgado Blanco as the Chairman of the Board of Directors and the Company's Chief Executive; however, he did not join the aforementioned Committee as a member.

Following the Annual Shareholders' Meeting held on April 19, 2012, which appointed 6 new directors of the 11 on the Board, the Company also had to restructure the Board of Directors Committees, including the Corporate Responsibility and Governance Committee. At its meeting on April 26, 2012, the Board of Directors approved a proposal from the Chairman to reduce the number of members of the Corporate Responsibility and Governance Committee from 4 to 3, in order to foster and promote Corporate Governance policies and to make management more efficient and dynamic. The meeting also appointed Juan Iranzo Martín, Carmen Gómez de Barreda Tous de Monsalve and Alfredo Parra García-Moliner as Committee members for a term of 3 years. The removal of the chief executive from membership of the Corporate Responsibility and Governance Committee is particularly significant, fostering greater independence for the Committee in its decision making, in accordance with international corporate governance practices. In addition, on April 26 the Corporate Responsibility and Governance Committee appointed Mr. Iranzo Martín as its Chairman.

As a result, 2012 witnessed a thorough overhaul of the composition of the Corporate Responsibility and Governance Committee:



	From January 1 until April 19, 2012	From April 26 until the date of approval of this report
Chairman	- Antonio Garamendi Lecanda (external independent director)	- Juan Iranzo Martín (external independent director)
Members	- Maria Ángeles Amador Millán (external independent director) - Luis M ^a Atienza Serna ² (executive chairman) - Manuel Alves Torres (external nominee director)	- Carmen Gómez de Barreda Tous de Monsalve (external independent director) - Alfredo Parra García-Moliner (external nominee director)
Non-Director Secretary	- Rafael García de Diego Barber	- Rafael García de Diego Barber

The Committee members have been appointed for a term of three years by the Board of Directors at the proposal of its Chairman, following a report by the Corporate Responsibility and Governance Committee.

All of the Committee members have demonstrated the skills and knowledge needed to perform the functions entrusted to the Committee.

Independent directors have a majority on the Corporate Responsibility and Governance Committee, and its chairman must be an independent director

2.3. Functions.

Pursuant to Article 24 of the Corporate Bylaws, the basic responsibilities of the Corporate Responsibility and Governance Committee are as follows:

- a) To report on (and, in the case of Independent Directors, make) any proposals to be submitted by the Board of Directors to the Shareholders' Meeting for the appointment or removal of Directors, including in cases of co-optation.
- b) To propose the compensation policy for Directors and senior executives to the Board of Directors and ensure its observance.
- c) To assume such reporting, supervising and proposing functions in the area of corporate governance as may be determined by the Board of Directors, as long as no ad hoc Committee has been set up for those functions.

² Committee member until March 8, 2012, when the Board accepted his resignation as a director.



The above basic responsibilities are detailed in Article 16 of the Board Regulations, which establishes the following:

16.1 In relation to appointments, performance and removals:

- a) To report in advance on (and, in the case of Independent Directors, make) any proposals to be submitted by the Board of Directors to the Shareholders' Meeting for the appointment or removal of Directors, including in cases of co-optation.
- b) To report, prior to their submission to the Board of Directors, on proposals for the appointment or removal of the Secretary and the Deputy Secretary of the Board of Directors.
- c) To propose the system for selecting Independent Directors to the Board of Directors.
- d) To ensure that the candidates for filling a vacant directorship meet all of the requirements imposed in the legal provisions and in these Regulations.
- e) To evaluate the skills, knowledge and experience required on the Board and consequently define the functions and skills required of the candidates for each vacancy.
- f) To evaluate the time and dedication necessary for Directors to be able to perform their duties with due quality and efficiency, evaluating for these purposes whether their position as a Director is compatible with membership on other management bodies of companies.
- g) To report on such appointments and removals of senior executives of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company as the Chairman may propose to the Board of Directors.
- h) To examine or organize, in the manner deemed appropriate, the process for succession of the Chairman and, as appropriate, to make proposals to the Board so the handover takes place in a planned and orderly fashion.
- i) To ensure that gender diversity is taken into account when filling vacancies.
- j) To consult with the Chairman, particularly when dealing with matters relating to Executive Directors.



16.2 In relation to compensation:

- a) To propose to the Board:
 - i) The compensation policy for the Directors and senior executives of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company;
 - ii) The individual compensation and other contractual conditions of Executive Directors.
 - iii) The basic terms and conditions of the contracts of senior executives of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company.
- b) To consult with the Chairman of the Company, particularly when dealing with matters relating to executive directors and senior executives of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company.
- c) To ensure compliance with the compensation policy established by the Company.

16.3 In relation to fulfilment of Directors' duties:

- a) To ensure the fulfilment by the Directors of the obligations established in these Regulations, to report to the Board on their fulfilment, and to issue the relevant reports and proposals and, as applicable, on the measures to be adopted in the event of breach.
- b) To authorize Directors to use corporate assets.

16.4 In relation to corporate governance rules:

- a) To supervise compliance with the corporate governance rules, making proposals for improvement to the Board of Directors, and to receive information in this respect and, as appropriate, issue an annual report on the measures to be implemented and submit it to the Board.
- b) To refer to the Board of Directors the proposals of the Audit Committee on the amendment of the Internal Code of Conduct on the Securities Markets.

16.5 In relation to corporate responsibility policy:



- a) To propose and promote the Company's policy on corporate responsibility.
- b) To report on and supervise corporate responsibility initiatives and proposals made or decided on by the organizational units responsible, and, as appropriate, refer the relevant report or proposal to the Board of Directors.
- c) To report annually on corporate responsibility policy.

16.6 Other functions:

- a) To keep the Board informed of its activities and to prepare an annual report to be included in the Annual Corporate Governance Report and an Action Plan for each year.
- b) To propose and report on any other matter related to the foregoing that may be requested by the Chairman or by the Board of Directors.
- c) To report to the Board on the performance of their duties by the Chairman and the plenary session of the Board.
- d) To verify the type of each Director for the purposes of the pertinent explanations by the Board to the Shareholders' Meeting that is to make or ratify the Director's appointment, and for the recording of the appointment in the Annual Corporate Governance Report.
- e) Any other powers attributed to it by the Board.

3. ACTIVITIES CARRIED ON IN 2012

The Board of Directors is informed of the issues dealt with in the Committee's meetings at the immediately following Board meeting; all Directors are provided with a copy of the minutes of the Committee's meetings once they have been approved.

The most significant steps taken by the Corporate Responsibility and Governance Committee in 2012 were:

3.1 In relation to appointments, removals and reappointments:



- A favourable report to the Board of Directors on the removal of Luis M^a Atienza Serna as the Chairman and Chief Executive of the Company.

- A favourable report to the Board on the appointment of the director José Folgado Blanco as the Chairman and Chief Executive of the Company.

- A favourable report on the proposed removal and appointment of the Director-General of System Operation.

- Proposals to the Board of Directors, for submission to the Annual Shareholders' Meeting, on the re-election of the executive director and the appointment of independent directors.

- Favourable reports to the Board of Directors, for submission to the Annual Shareholders' Meeting, on the appointment of nominee directors proposed by the majority shareholder.

- Reports on the Chairman of the Board's proposals for appointments and positions on Board Committees.

- Analysis of the criteria for defining the profile and requirements for independent director vacancies on the Board of Directors.

3.2 In relation to compensation:

- Approval of the proposed Business, Managerial and Management Committee objectives for 2012.

- Analysis of performance of the proposed Business, Managerial and Management Committee objectives for 2012.

- Analysis of the 2009-2013 long-term objective monitoring report.

- Approval of proposals for submission to the Board of Directors relating to total remuneration for the Board of Directors and Executive Chairman of Red Eléctrica Corporación, S.A., and the senior managers of Red Eléctrica de España, Sole-Shareholder Company, in 2012.

- Approval of proposed remuneration for the management team.

- Analysis and approval of the contract of the Company's Chairman.



- Analysis of the proposal for the Annual Share Award Program for non-executive personnel, reporting favourably to the Board of Directors.

- Approval of the proposed new remuneration structure and content for the Board of Directors and the Executive Director for 2012 for submission to the Board of Directors, in accordance with international corporate governance recommendations (following 2012 year-end).

3.3 In relation to corporate governance rules and practices:

- Approval of the Company's knowledge activities program for directors for fiscal year 2012.

- Analysis of Corporate Governance reports for fiscal years 2011 and 2012 (the latter, following 2012 year-end)

- Analysis of the Report, conclusions and recommendations stemming from the external assessment process for the Board of Directors, its Committees and the chairman for 2011 and commencement of the 2012 assessment process, with external advice from KPMG in both processes.

- Analysis of the Annual Gender Diversity Report, for submission to the Board of Directors.

- Analysis of the text of the Call Notice and Agenda, and the approval of the proposed resolutions and reports, for submission to the Board relating to the Annual Shareholders' Meeting for fiscal year 2011.

- Analysis of the report on the advance evaluation process of the management procedures of the Annual Shareholders' Meeting prepared by Deloitte for the Shareholders' Meeting.

- Analysis, review and preparation of proposed modifications to the Regulations of the Board of Directors, to adapt them to the latest legislative developments affecting listed companies, and to incorporate international corporate governance best practices.

- Analysis of the functions and responsibilities of the Independent Lead Director, for possible incorporation into the Company.

- Analysis of the various functions of the Chairman of the Board and the executive director, assessing the advantages and disadvantages of these roles being separated and performed by different people.



- Analysis and implementation of the corporate governance improvement programme.
- A favourable report to the Board of Directors on the the proposed modification of its Internal Code of Conduct on the Securities Market, relating to the publication of results and related restricted action periods.
- Analysis and approval of the report into implementation of the Criminal Risk Prevention Programme, for submission to the Board of Directors.

3.4 In relation to corporate responsibility policy:

- Analysis and submission to the Board of Directors of the 2011 Annual Report on Corporate Responsibility Policy.
- Analysis of reports into corporate responsibility results.
- Analysis of the monitoring and assessment report into Red Eléctrica's Equality Policy.

3.5 Other activities:

- Approval of the Annual Report on the Committee's activities in 2011, for incorporation into the Annual Corporate Governance Report for the year.
- Approval of the Committee's Action Plan for 2013.
- Approval of the Committee's meeting schedule for 2013.

4. ATTENDANCE BY DIRECTORS AT MEETINGS.

At the twenty (20) meetings held, no Directors were absent and no proxies were granted by Directors.

REPORT ON THE ACTIVITIES OF THE AUDIT COMMITTEE IN 2012

1. INTRODUCTION

The Audit Committee Action Plan for 2013 envisages the preparation in February of a report on the Committee's activities in 2012, to be included in the Annual Corporate Governance Report of the Company, which constitutes the purpose of this document.



2. STRUCTURE, COMPOSITION AND FUNCTIONS

2.1 Structure and composition

The Audit Committee is comprised of three members, pursuant to Article 23 of the Corporate Bylaws and Article 13 of the Board Regulations, which establish a minimum of three and a maximum of five members, all of whom are External Directors and appointed for a three-year term.

The Chairman of the Committee is elected by its members from among the Independent Directors who sit on the Committee, and the Committee Secretary is the Secretary of the Board of Directors.

Throughout 2012, the Committee was comprised of External Directors only, with a majority of Independent Directors.

Since the start of 2012, the Committee members have been Arantza Mendizábal Gorostiaga (independent director), acting as chairwoman, María Jesús Álvarez González (nominee director) and José Folgado Blanco (independent director).

The current executive chairman, José Folgado Blanco, was obliged by law and the Company's Bylaws to leave the Committee on March 8, 2012, the date on which the Board of Directors appointed him as executive chairman.

The Audit Committee was fully renewed following the Annual Shareholders' Meeting held on April 19, 2012, which appointed 6 new external directors.

At its meeting on April 26, 2012, the Board of Directors, on the proposal of the Chairman, approved the appointments of Paloma Sendín de Cáceres, María Ángeles Amador Millán and Fernando Fernández Méndez de Andés as members of the Committee for a term of three years. At a meeting held on the same day, the Audit Committee approved the appointment of Paloma Sendín de Cáceres as its chairwoman.

The composition of the Company's Audit Committee on December 31, 2012, and on the date of approval of this report, is:

- | | |
|---|------------|
| • Paloma Sendín de Cáceres (independent director) | Chairwoman |
| • María Ángeles Amador Millán (independent director) | Member |
| • Fernando Fernández Méndez de Andés (nominee director) | Member |



- Rafael García de Diego Barber Non-Director Secretary

The Directors on the Committee are particularly qualified to hold their positions, with broad professional experience, having held positions of the highest responsibility outside the RED ELÉCTRICA Group, in functions related to those entrusted to the Committee.

Set out below are brief summaries of the professional careers of its members:

- Paloma Sendín de Cáceres is a Graduate in Economics and Business Science from the Universidad Autónoma de Madrid. She is a Commercial Technician and State Economist and holds a State Commercial Diploma.

Among other positions, she has been a member and representative of Spain on various EC committees and workgroups, a member of the Organising Committee of the European Union Conference on Stakeholders, a director of the Banco Exterior de España, a director of the Compañía Logística de Hidrocarburos (CLH), a director of the Banco Exterior de España in the UK and Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin. She is currently, among other roles, an Advisory Committee Member of the Fundación para Estudios sobre la Energía.

- Maria Ángeles Amador Millán holds a Law Degree from the Universidad Complutense de Madrid. Among other positions, she has been the Technical General Secretary of the Ministry of Public Works and Urban Development, Undersecretary at the Ministry of Health and Consumer Affairs, the Minister for Health and Consumer Affairs and Deputy Chairwoman of the Constitutional Committee of the Lower House of Parliament. She has also been the chairwoman of the Company's Corporate Responsibility and Governance Committee, having joined the Company as a Director in May 2005. She is a practising lawyer and a member of the Advisory Board of Accenture.

- Fernando Fernández Méndez de Andés holds a Doctorate in Economics from the Universidad Autónoma de Madrid. He is a lecturer in Economics and Director of the International Financial System Chair at the IE Business School, specialising in Macroeconomics, the International Economy and Financial Stability.

Among other positions, he has been the Principal Economist at the International Monetary Fund, Chief Economist and Director of Research Service at Banco Central Hispano (BCH), belonging to Banco Santander, a member of the Executive Committee of the Association for European Monetary Union, a member of the Economists Council of Conference Board, Europe, a Member of the Permanent Committee of Head Economists at the Instituto Internacional de Finanzas and the Grupo de Trabajo en Prevención



y Resolución de Crisis (Crisis Prevention and Resolution Working Group), during the 1999-2002 Latin American debt crisis, a Member of the Executive Committee of the Instituto de Estudios Económicos and a member of the Technical Group on Financing Emerging Economies at the Ministry of Economics and Commerce. He is currently, among other roles, an international consultant on macroeconomic, regulatory and financial issues, a collaborator with the Fundación de Estudios Financieros and an independent director of Bankia, S.A.

The Committee Secretary is Mr. Rafael García de Diego Barber, the Secretary of the Company's Board of Directors.

Luis Villafruela Arranz, Director of Regulation, and Esther Rituerto Martínez, the Director-General of Administration and Finance until December 12, 2012, also regularly attended Committee meetings to report on various matters falling within their areas of responsibility.

As is customary with regard to the review of the financial statements of the Company and of its Group, the external auditor of the Company and its Group for fiscal year 2011, PriceWaterhouseCoopers, attended the Committee to explain the philosophy and processes of the audit performed on the Group's companies. The Committee agreed to report favourably on the financial statements for fiscal year 2011.

2.2 Functions

Under Article 23 of the Corporate Bylaws and Article 14 of the Board Regulations, the functions of the Audit Committee include the provision of support to the Board of Directors in its function of supervision of the process of preparing economic and financial information, the internal control of the Company, the independence of the external auditor, compliance with statutory provisions and internal regulations, provisions relating to the Company's shareholders and any powers expressly attributed to it by the Board of Directors.

In particular, these competencies include:

1- In relation to *economic and financial information*, responsibility for supervising the process of preparation and integrity of the financial information of the Company and, where appropriate, its Group, ensuring that legislative requirements are taken into account, the consolidated group is adequately defined, and the applicable accounting principles and methods are correctly applied.

In addition, a duty to review and report to the Board in advance on economic and financial information that the Company must disclose and send to the market supervisory bodies has been established. Following the most extended Good Governance recommendations, the Committee must ensure that any interim financial statements are prepared using the same accounting methods as annual financial



statements and, where it sees fit, it may ask the external auditor to conduct a limited review.

2- In relation to *internal control and risk management systems*, the internal audit function has been given responsibility for ensuring the sound functioning of the internal reporting and control systems. The Audit Committee has been assigned the functions of: monitoring the independence and efficacy of the internal audit function; supervising and controlling the process of selection, appointment, reappointment and removal of the head of the internal audit function, as well as its action plans; supervising and controlling the resources allocated to the internal audit function, including its budget; receiving periodic information on its activities; and verifying that senior management of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company is acting on the conclusions and recommendations in its reports.

The head of internal audit must present an annual work program to the Committee, report directly on any incidents arising during its implementation and submit an activities report at the end of each year.

In addition, in accordance with the latest Good Governance recommendations, the Committee must periodically monitor internal control and risk management systems, so that the principal risks are adequately identified, managed and disclosed; and must also supervise the procedure established by the Board to enable employees to communicate any potentially significant irregularities, particularly financial and accounting irregularities, that they may detect at the Company.

3- In relation to the *external auditor*, particularly noteworthy is the responsibility for ensuring that the Company discloses any change of auditor to the CNMV as a material event and, if applicable, any disagreements with the outgoing auditor, and also for ensuring that the Company, within the scope of its responsibilities, complies with current rules regarding the provision of non-audit services, limits on concentration of the auditor's business and, in general, any other rules established to safeguard the independence of auditors. In the event of resignation of the external auditor, it must review the underlying circumstances, and verify that senior management of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company is taking into account the recommendations of the external auditor.

4- In relation to compliance with *legal provisions and internal regulations*, the Regulations establish an obligation on the Audit Committee to supervise compliance with the Internal Code of Conduct on the Securities Market and with the functions of the Oversight Body provided in that Code, periodically informing the Corporate Responsibility and Governance Committee of the degree of compliance with the Code and of any incidents that occur; to annually evaluate compliance with the rules of the Internal Code of Conduct on the Securities Market; and to review compliance with the actions and measures resulting from reports or inspections by the supervisory and control authorities of the securities market.



5- In relation to *the Company's shareholders*, the Committee is responsible for entertaining and, if applicable, responding to any initiatives, suggestions or complaints raised by the shareholders within the scope of its jurisdiction and for reporting to the Shareholders' Meeting, as applicable, on any issues falling within its jurisdiction raised by shareholders.

6- The *Other Responsibilities* section provides for the Committee's duty to report to the Board on any related-party transactions and any transactions creating or acquiring interests in special-purpose vehicles or entities domiciled in countries or territories that are considered tax havens, and also on any transactions and operations that could impair the Group's transparency. It is also responsible under the provisions of the Internal Code of Conduct on the Securities Market for oversight functions relating to the Company's transactions with treasury shares.

The principal activities undertaken by the Audit Committee in 2012, based on the above areas of responsibility, are described below.

3. ACTIVITIES CARRIED ON IN 2012

On December 17, 2012, the Audit Committee approved its Annual Action Plan under the responsibilities assigned to it under the Bylaws and the Regulations of the Board of Directors. At a meeting on January 28, 2013, the Audit Committee reviewed this Action Plan in detail.

The Audit Committee reported on its activities to the Board of Directors at the Board meetings immediately following each Committee meeting, and provided the Directors with copies of the Minutes of its meetings and related documentation through the Director's Portal.

The Audit Committee met ten (10) times in 2012, and reported ten times to the Board on its activities.

In 2012, the Audit Committee performed the following main tasks:

3.1 As regards economic and financial information:

- . Review of the 2011 Financial Statements of the Company and its Consolidated Group and review of the External Auditor's Report.

- . Analysis of the projected results for the Red Eléctrica Group, and of the criteria being used for the 2011 year-end.



- . Analysis of the proposed appropriation of income and distribution of dividends by Red Eléctrica Corporación, S.A. for 2011, and issue of a favourable report.
- . Review of financial information for market supervisory bodies.
- . Supervision of the sections of the 2011 Annual Corporate Governance Report, within the scope of the Committee's jurisdiction.
- . Follow-up on quarterly treasury stock reports.
- . Follow up of quarterly related-party transaction reports.
- . Analysis of the report on Red Eléctrica Group inter-company transactions to December 31, 2011.
- . Analysis of Economic and Financial reports in relation to Royal Decree-Laws 13/2012, of March 30, and 20/2012, of July 13.
- . Analysis and approval of the 2012 year-end schedule of the Red Eléctrica Group.
- . Analysis and issue of favourable reports on proposals to replace the issue of promissory notes with the establishment of a European Commercial Paper (ECP) programme.
- . Issue of a favourable report on the proposal to establish a financing facility with the European Investment Bank.
- . Analysis of the "Review procedure for economic and financial information sent to market-supervisory bodies by the Audit Committee".
- . Analysis of Reports on 2012 bond issues.
- . Analysis of the general dividend policy of Red Eléctrica.
- . Analysis of the proposed distribution of a 2012 interim dividend and submission of a favourable report to the Board.
- . Analysis of certain proposals for authorisation to cover financing needs with issue of favourable reports.



- . Analysis of credit rating reports on Red Eléctrica by Standard & Poor's and Moody's.
- . Analysis of changes to the Red Eléctrica Group 2012 budget and issue of a favourable report.
- . Analysis of the 2013 Budget and issue of a favourable report.
- . Analysis of the 2013-2017 Investment Plan.

3.2 As regards internal control and risk management systems:

- . Analysis of the independent review by Ernst &Young into the design of the risk-management system, establishing that it complies with the ISO 31000 standard.
- . Analysis of a report from the external auditor PriceWaterhouseCoopers into the quality of the Group's internal control systems in relation to its 2011 financial statements.
- . Analysis of the Internal Audit Report into the System for Internal Control of Financial Reporting (ICFR) for fixed assets in 2011.
- . Analysis of the Deloitte's report into the internal financial information control system.
- . Analysis of a Deloitte's report analysing the effectiveness of internal control-system processes, in relation to generation of the financial information used in the Red Eléctrica Group's financial statements.
- . Analysis of the December 31, 2011, Report into the Company's Risk Map.
- . Analysis of a Report into the Red Eléctrica Group's Integrated Risk Management.
- . Analysis and approval of a report into the implementation of a Criminal Risk Prevention Programme.
- . Analysis of a report into a proposed update of general Internal Risk Control Procedure GN15.



3.3 In relation to the internal audit function:

- . Analysis of the Internal Audit reports produced in 2011, and their results.
- . Analysis of a report into the resources assigned to the Internal Audit service.
- . Analysis of the regular report into occupational health and safety in 2012, and the proposed new structure for submitting information on health and safety risks to the Committee.
- . Analysis of the Global Internal Audit Map and 5-year plan prepared by the Internal Audit Department.
- . Analysis of the 2013 Annual Internal Audit Plan, approved in December 2012.
- . Analysis of the Report into compliance with Internal Audit report recommendations.

3.4 As regards the external auditor:

- . Analysis of reports from the external auditor into the 2011 financial statements and the preliminary external auditor report for 2012.
- . Analysis of reports into the independence of the external auditor issued by PriceWaterhouseCoopers pursuant to Law 12/2012.
- . Approval of the proposed appointment of the external auditor for Group companies for 2012 and submission to the Board of Directors.
- . Analysis of the report into the renewal/appointment of the external auditor of Group companies for fiscal year 2013.

3.5 In relation to compliance with legal provisions and internal regulations:

- . Analysis of the report on monitoring of internal regulations at December 31, 2011.
- . Analysis of the report on the status and follow-up of the Company's Rules and Procedures.



- . Annual assessment of compliance with the Internal Code of Conduct on the Securities Market.
- . Analysis of a report into the restricted action period in the Internal Code of Conduct on the Securities Market and the proposed modification to this, to be sent to the Corporate Responsibility and Governance Committee.

3.6 As regards the Company's shareholders:

- . Analysis of the resolutions proposed by the Board to the Shareholders' Meeting in the areas falling within the Committee's jurisdiction, and of the resolution to call a Shareholders' Meeting.
- . Follow-up of any initiatives, suggestions and complaints made by the shareholders during the year.
- . Attendance by the chairwoman of the Audit Committee at the Company's Annual Shareholders' Meeting and her availability for shareholders.

3.7 Other activities:

- . Approval of the 2011 Annual Report on the Activities of the Audit Committee, to be incorporated into the Annual Corporate Governance Report for the year.
- . Analysis of the report into renewal of the Red Eléctrica Corporate Insurance Program 2012-2013.
- . Appointments to positions on the Audit Committee (chairwoman).
- . Supervision of the appointment of a new manager for the Company's internal control area.
- . Approval of the 2013 meeting schedule.
- . Approval of the Committee's Action Plan for 2013.



4. DIRECTOR ATTENDANCE AT MEETINGS

At the ten (10) meetings held, no Directors were absent and no proxies were granted by Directors.

5. REVIEW OF THE 2012 FINANCIAL STATEMENTS

At the meeting approving the report on the activities of the Audit Committee in 2012, and in relation to the 2012 fiscal year, the Audit Committee:

- . Reviewed the 2012 Financial Statements of the Company and its Consolidated Group and the Report by the External Auditor.

- . Analysed the proposed appropriation of income and distribution of dividends by Red Eléctrica Corporación, S.A.

As usual, PriceWaterhouseCoopers, the external auditor of the Company and its Group for the fiscal year, attended Committee meetings to provide the clarifications and explanations required.

In both cases, the Committee reported favourably on these proposals.



TITLE IV- THE CORPORATE GOVERNANCE OUTLOOK IN RED ELÉCTRICA

This Title has been included for the first time this year by the Board of Directors, as it may interest current shareholders and potential investors and other stakeholders in the future of RED ELÉCTRICA, in particular, foreign shareholders, who own around 70% of the Company's share capital. It must be remembered that the statements in this Title do not represent either commitments or obligations for the Company that may be required by others. Rather these are potential steps and actions that may be taken in 2013 and future years as decided by the Board of Directors of RED ELÉCTRICA. The Company is committed to incorporating international Corporate Governance best practices, and must continue projecting and consolidating its position every year in response to the requirements of its shareholders.

The Board of Directors has three basic analysis tools for the Company's Corporate Governance practices: The annual assessment of the Board (supported by an external advisor over recent years); a Corporate Governance improvement programme implemented with advice from specialist consultants and a visits programme for institutional investors and *proxy advisors* which, as in previous years, took place in January and February 2013.

For the first time, an external review of the management processes and voting at the Annual Shareholders' Meeting held on April 19, 2012 was carried out by the consultants Deloitte; this review has identified weaknesses and opportunities for improvement in the organisation, development and running of the Shareholders' Meeting.

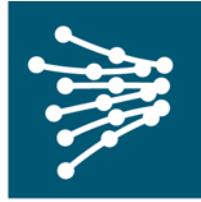
These tools are used to analyse the Company's strengths and, in particular, areas for improvement in the light of the international Corporate Governance standards adopted by leading international companies, and the practices most in demand among major foreign institutional investors.

Without limitation, the most relevant of these issues that are currently being analysed and the ones that will be debated in the near future in the Board of Directors and its Committees, include:

- Progress in the commitments that the Company has made to its shareholders, particularly institutional investors, in order to consolidate a permanent relationship over the year that will align the interests of the Company with those of its shareholders over the medium and longer-term.
- The adoption of new measures to counterbalance the powers and responsibilities of the chief executive and chairman of the Board of Directors.



- Improving Board compensation information and transparency in the annual report on directors' compensation, with an individualised breakdown of compensation for each director, and of the binding and separation clauses of chief executives and other senior managers.
- Analysis of the adoption of new Board compensation policy practices: New compensation structure; the possibility of including *claw back* or *deferral* clauses for Board and executive chairman variable compensation; the possibility of incorporating environmental, social and Good Corporate Governance (ESG) risk administration and management criteria and objectives in the Company and the Group into the variable compensation of the Board and the executive chairman; the possibility of incorporating comparative analysis of the compensation policies of similar or comparable companies, etc.
- Fostering direct oversight and control by the Board of Directors of strategy, management policy and risk control.
- Strengthening the external review of the management processes of the Company's Annual Shareholders' Meeting, including expanding its scope, to foster the exercise of shareholder rights and increase their legal guarantees and security.
- Expanding, under international standards, the information on the corporate website relating to the Company's Corporate Governance, and incorporating improvements to facilitate the identification, understanding and usage of shareholders and international investors.
- Analysis of other issues that might improve the Company's Corporate Governance practices.



RED ELÉCTRICA

CORPORACIÓN

Official Annexes



ANNEX 1

ANNUAL CORPORATE GOVERNANCE REPORT FOR RED ELÉCTRICA CORPORACIÓN S.A. FOR THE 2012 FISCAL YEAR, IN ACCORDANCE WITH CIRCULAR 4/2007, OF DECEMBER 27, 2007, OF THE SPANISH NATIONAL SECURITIES MARKET COMMISSION (CNMV)³

ANNUAL CORPORATE GOVERNANCE REPORT

LISTED COMPANIES

ISSUER IDENTIFICATION

FY

2012

Tax ID number
(CIF) A-78003662

Company Name:

RED ELÉCTRICA CORPORACIÓN, S.A.

Registered Office:

Paseo Conde de los Gaitanes, 177
La Moraleja, Alcobendas
28109 MADRID

³ Unless another date is expressly indicated in this report, its contents are deemed to refer to December 31, 2012.



A OWNERSHIP STRUCTURE

A.1. Complete the following table on the Company's capital:

Date of last change	Capital (€)	Number of shares	Number of voting rights
17-05-1999	270,540,000	135,270,000	135,270,000

State whether there are multiple classes of shares with different related rights:

YES NO

Class	Number of shares	Par value per share	Number of voting rights per share	Other rights

All the shares belong to the same class and series and confer the same rights on their holders.

A.2. List the direct and indirect owners of significant holdings in the Company at year-end, excluding Directors:

Name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
State-owned Industrial Holdings Company (SEPI)	27,054,000	--	20%
HSBC Holdings, PLC	--	4,381,395.3	3.239%
Talos Capital Limited	4,175,785	--	3.087%
The Children Investment Fund Management (UK) LLP	--	4,175,784.9	3.087%
First Eagle Investment Management LLC	--	4,132,499	3.055%
MFS Investment Management	--	4,120,324	3.046%

(*) According to public information provided by the CNMV at December 31, 2012

(*) Through:



Name of direct owner of holding	Number of direct voting rights	% of total voting rights

Indicate the most significant movements in the shareholder structure during the year:

Name of shareholder	Date of transaction	Description of transaction

A.3. Complete the following tables on the members of the Company's Board of Directors who own Company shares:

At December 31, 2012, the direct and indirect shareholdings of the Directors in RED ELÉCTRICA's capital, both in individual and aggregate terms, were as follows:

Name of Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
José Folgado Blanco	1000	--	0.00074
Alfredo Parra García-Moliner	--	--	--
Francisco Ruiz Jiménez	--	--	--
Fernando Fernández Méndez de Andés	--	--	--
Paloma Sendín de Cáceres	--	--	--
Carmen Gómez de Barreda Tous de Monsalve	--	--	--
Juan Iranzo Martín	--	--	--
María Angeles Amador Millán	--	--	--



Rui Manuel Janes Cartaxo	--	--	--
Miguel Boyer Salvador	--	--	--
María José García Beato	5	--	0.000004

(*) Through:

Name of direct owner of holding	Number of direct voting rights	% of total voting rights

% total of voting rights in possession of the Board of Directors
0.000744

Complete the following tables on the members of the Company's Board of Directors who hold Company share options:

Name of Director	Number of direct options	Number of indirect options	Equivalent number of shares	% of total voting rights
--	--	--	--	--

A.4. Give details of any relationships of a family, commercial, contractual or corporate nature existing between the owners of significant holdings, insofar as they are known to the Company, unless they have scant relevance or arise from the ordinary course of business:

Names of related parties	Type of relationship	Brief description
--	--	--

A.5. Give details of any relationships of a commercial, contractual or corporate nature existing between the owners of significant holdings and the Company, unless they have scant relevance or arise from the ordinary course of business:

Names of related parties	Type of relationship	Brief description
--	--	--



The significant shareholder of the Company, SEPI, does not have any relationship with the Company and/or its Group that is material or falls outside the ordinary course of business of a contractual, corporate or commercial nature.

A.6. Indicate whether any side agreements affecting the Company have been disclosed to the Company as provided in Article 112 of the Securities Market Law. If so, provide a brief description and list the shareholders bound by the agreement:

YES NO

Parties to side agreement	% of capital affected	Brief description of the agreement

At December 31, 2012, the Company had no record of any agreements or covenants between shareholders that require them to adopt a common policy through the concerted exercise of voting rights at Shareholders' Meetings, or which restrict or condition the unrestricted transfer of their shares.

State whether the Company is aware of the existence of concerted actions among its shareholders. If so, provide a brief description:

YES NO

At 2012 year-end, there was no record at the Company of any agreements or accords between shareholders requiring the concerted exercise of their voting rights, or a common policy on the management of the Company, or having the aim of materially influencing the Company.

Parties involved in concerted action	% of capital affected	Brief description of the concerted action
--	--	--

Expressly state whether any of the above agreements or covenants or concerted actions have been amended or terminated during the year.

A.7. Indicate whether there is any individual or legal entity that exercises or may exercise control over the Company, in accordance with Article 4 of the Securities Market Law:

YES NO

Name



Comments
SEPI was the direct owner, at 2012 year-end, of a significant interest in the Company, holding 27,054,000 shares that represent 20% of capital. All of the foregoing is for the purposes contemplated in Royal Decree 1362/2007, dated October 19, 2007.
There are no individuals or legal entities that exercise or may exercise control over the Company, as provided in Article 4 of the Securities Market Law.

A.8. Complete the following tables on the Company's treasury stock:

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % of capital
414,857	--	0.307%

(*) Through:

Name of direct owner of holding	Number of direct shares
	--
Total:	--

Give details of any significant variations during the year, in accordance with Royal Decree 1362/2007:

Date of notice	Total shares acquired directly	Total shares acquired indirectly	Total % of capital
03/04/2012	1,409,054	--	1.004%
24/08/2012	1,357,465	--	1.003%

Gain/(Loss) on treasury stock disposed of during the period (€Thousand)	3,361.1
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A.9. State the conditions and term of the current authority conferred by the Shareholders' Meeting on the Board of Directors for acquisitions or transfers of treasury stock:

The Corporate Enterprises Law (LSC) has consolidated the legal regime applicable to the treasury stock of companies established in Law 3/2009, of



April 3, 2009, on Structural Modifications to Commercial Companies, without introducing any material amendments to the regime.

In light of the foregoing, and although the authorization approved by the Shareholders' Meeting on May 20, 2010, in relation to the award of treasury shares, as compensation, to employees of the Company and of the RED ELÉCTRICA Group, was still in force, pursuant to the law, for another four years, it was submitted for approval by the Shareholders' Meeting held on April 13, 2011. Subsequently, although the authorization approved by the 2011 Shareholders' Meeting was still in force, it was submitted for approval for another 5 years by the Shareholders' Meeting held on April 19, 2012. It was intended that the shareholders renew the authorization granted the previous year, in accordance with the most recent corporate governance practices. As a separate item on the agenda, it was also intended to establish a Compensation Plan for members of Senior Management and the Executive Directors of Red Eléctrica Corporación, S.A, which may be extended to companies in its Consolidated Group, allowing part of their compensation to be awarded in the form of Company shares, on the same terms as last year and always within the maximum annual legal limit of €12,000 per participant, which enables certain tax advantages to be enjoyed (which are applied equally to all employees of the Company within their relevant Plan). This Plan requires a resolution with certain legally established conditions.

Accordingly, the Shareholders' Meeting of the Company held on April 19, 2012, gave an authorization to the Board of Directors, pursuant to the provisions of Article 146 and related provisions of the Corporate Enterprises Law and other applicable legislation, for the derivative acquisition of treasury stock in Red Eléctrica Corporación, S.A. by the Company itself and by companies of the Red Eléctrica Group directly or indirectly and insofar as the Board of Directors considers that the circumstances so dictate, subject to the following conditions:

- The maximum number of shares to be acquired must not exceed the established legal limit, provided that the other applicable legal requirements can also be fulfilled.
- Acquisitions cannot be made for a consideration higher than the market value of the shares at the time of acquisition, or for a consideration lower than 50% of the market price at that time.
- The methods of acquisition may consist of sale and purchase, swap or any other type of transaction for consideration or for no consideration, as the circumstances so dictate. In the case of acquisition for no consideration, pursuant to the provisions of Article 146.4 of the Corporate Enterprises Law, the shares acquired may be partially paid-in.
- Pursuant to the provisions of Article 146.1 b) of the Corporate Enterprises Law, the acquisition, including any shares previously acquired by the Company and held as treasury stock, may not have the



effect of leaving net worth below the amount of capital stock plus legal reserves or restricted reserves pursuant to the bylaws.

For these purposes, 'net worth' will be considered the amount classed as such pursuant to the criteria used to prepare the financial statements, reduced by the amount of income attributed directly to same and increased by the amount of uncalled subscribed capital stock, as well as by the nominal amount and the subscribed additional paid-in capital recorded for accounting purposes as shareholders' equity.

In accordance with paragraph three of Article 146.1 a) of the Corporate Enterprises Law, the Board of Directors of the Company may use some or all of the treasury stock acquired under this authorization and the treasury stock already owned by the Company on the date of approval of the resolution to implement compensation programs consisting of the direct award of shares to employees and Executive Directors of the Company and of the companies belonging to the RED ELÉCTRICA Group.

For all of the foregoing, an authorization as broad as may be necessary is granted to the Board of Directors to request all such authorizations and adopt all such resolutions as may be necessary or appropriate for compliance with the legislation in force, and the implementation and successful outcome of this resolution.

The term of this authorization will be five (5) years as from the date of this Shareholders' Meeting.

The Shareholders' Meeting expressly revoked and, therefore, rendered ineffective the authorization for the derivative acquisition of treasury stock given to the Board of Directors by the Shareholders' Meeting held on April 13, 2011.

A.10 Indicate, as appropriate, any statutory or bylaw restrictions on the exercise of voting rights, and any statutory restrictions on the acquisition or transfer of holdings in the capital.

State whether there are statutory restrictions on the exercise of voting rights:

YES NO

Maximum percentage of voting rights that may be exercised by one shareholder due to special statutory restrictions (Electricity Industry Law)	3% 1% (electricity industry)
--	---

State whether there are bylaw restrictions on the exercise of voting rights:

YES NO

Maximum percentage of voting rights that may be exercised by a shareholder due to bylaw restrictions	3% 1% (electricity industry)
---	---

Description of the statutory and bylaw restrictions on the exercise of voting rights

Each share gives the right to one vote and all shareholders are entitled to attend Shareholders' Meetings, without any required minimum number of shares, as was the case until the Special Shareholders' Meeting of July 17, 2003, which removed the bylaw requirement to hold at least 50 shares in order to attend Shareholders' Meetings.

Various amendments to Electricity Industry Law 54/1997 of November 27, 1997, affecting restrictions on voting rights were introduced with the entry into force of Law 17/2007 of July 4, 2007, amending Electricity Industry Law 54/1997 to adapt it to the provisions of Directive 2003/54/EC of the European Parliament and of the Council of June 26, 2003 concerning common rules for the internal market in electricity, a Community provision that has been superseded by Directive 2009/72/EC of July 13, 2009, which proclaims the mandatory independence of transmission companies and operators of European electricity systems.

Specifically, Sub-provision Two of Additional Provision Three of Law 17/2007 established maximum limits on the exercise of voting rights, in order to guarantee the independence of a company engaging in regulated activities in the electricity industry which, as provided in Electricity Industry Law 54/1997 of November 27, 1997, constitute an essential service.

Approval of Royal Decree-Law 13/2012, of March 30, incorporated a number of Directives into Spanish law. One of these was Directive 2009/72/EC of July 13, 2009, which proclaims the mandatory independence of transmission companies and operators of European electricity systems. This endorsed the legal limits on holdings and voting rights applicable to the Company's shareholders, including some further restrictions on companies involved in generating and resale. Royal Decree-Law 13/2012, of March 30, modified, among others, the second section of Additional Provision Twenty Three.

The shareholding limits established in the new draft of Additional Provision Twenty Three of Law 54/1997, of November 27, on the Electricity Industry, continue to be basically the same as previously established, with some added limitations for generators and resellers:

- 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 capital and they do not exercise more than 3% of voting rights. These shares may not be pooled for any purpose whatsoever.



- Parties that engage in activities in the electricity industry, and those individuals or legal entities that directly or indirectly hold more than 5% of their capital, may not exercise more than 1% of voting rights, without prejudice to the limitations established in article 34.2 of the Electricity Industry Law for generators and resellers.
- The special regime for Sociedad Estatal de Participaciones Industriales (SEPI) is maintained, whereby it must hold at least ten percent (10%) of capital in all cases.

These legal provisions on the general and special shareholding regime are incorporated in articles 5 and 14 and the Sole Additional Provision of the Corporate Bylaws, and in article 6.3 of the Regulations of the Shareholders' Meeting, which had to be formally adapted to the new provisions of Additional Provision Twenty Three of Law 54/1997.

Law 1/2012, of June 22, 2012, simplified the information and documentation for mergers and spin offs of corporate enterprises, redrafts certain aspects of the Corporate Enterprises Law, affecting, among others, regulation of certain aspects relating to the possibility of introducing bylaw restrictions on voting rights, after these were expressly prohibited for listed companies by Law 12/2010, of June 30 (article 527 LSC). This does not affect the Company, as the previous regime was not applicable to the Company because, by its nature, it is subject to the limitations set out in the aforementioned Law 54/1997, of November 27, on the Electricity Industry.

The literal wording of the Articles referring to restrictions on the exercise of voting rights is as follows:

"Article 5.- Capital

1. The capital of the Company stands at two hundred and seventy million five hundred and forty thousand euros (€270,540,000), and is divided into one hundred and thirty-five million two hundred and seventy thousand (135,270,000) shares, of a single class and series, each with par value of two euros (€2), fully subscribed and paid in, and represented by book entries.

2. In accordance with the provisions of the Additional Provision Three of Law 17/2007 and the Electricity Industry Law:

1) Unless otherwise permitted by law, the sum of the direct and indirect interests in the Company's capital held by any individual or legal entity may not at any time exceed five percent of the Company's capital. These shares may not be pooled for any purpose whatsoever. No shareholder may exercise more than three percent of voting rights. Parties that engage in activities in the electricity industry and those



individuals or legal entities that directly or indirectly hold more than five percent of their capital, may not exercise more than one percent of voting rights. Furthermore, the sum of the direct or indirect interests held by parties that pursue activities in the electricity industry must not exceed forty percent.

- 2) *For the purposes of calculating the holding of each shareholder, a specific individual or legal entity shall be deemed to own, in addition to the shares and other securities owned or acquired by entities belonging to its group, as this term is defined in Article 4 of Securities Market Law 24/1988 of July 28, 1988, the shares or securities owned:*
- a) *By persons acting in their own name but for the account of the former, on a concerted basis or as a part of a decision-making unit, the members of a legal entity's Board of Directors being deemed, unless proven otherwise, to act for the account of or on a concerted basis with such entity.*
 - b) *By shareholders with whom it exercises control over a controlled entity.*

In any event, regard shall be had both to the nominee ownership of the shares and other securities and to the voting rights enjoyed by any means.

3. *Without prejudice to the provisions of Article 6.2 of these Corporate Bylaws, the breach of the limits indicated in Article 5.2 or of those established at any time by the legislation in force shall entail the legal consequences specified therein, including, as the case may be, the imposition of the appropriate penalties and the provisions of these Bylaws.*

The voting rights corresponding to the shares or other securities which, pursuant to the provisions of the legislation in force from time to time, exceed the limit specified in this Article shall be held in abeyance until such time as they comply with the limit.

4. *As an exception to the general rule, and by reason of the special regime applied by the Electricity Industry Law to SEPI, the holding and voting rights of that company shall be governed by the provisions of these Corporate Bylaws, except as provided for in the Sole Additional Provision thereof.*

Sole Additional Provision.- Special Regime for SEPI

1. *By virtue of the provisions of the Electricity Industry Law, neither the limitations stipulated in Sub-provision 2 of Additional Provision Three of*



Law 17/2007, nor the limitations stipulated in these Bylaws on the holding of shares in the Company and on voting rights shall apply to the State-owned Industrial Holdings Company. The State-Owned Industrial Holdings Company will in all cases have a holding of not less than 10%.

2. *Where a Director who is an individual holds office on behalf of the shareholder referred to in Transitional Provision Nine in relation to Article 34.1 of the Electricity Industry Law, his compensation must be in keeping with the applicable provisions on incompatibility in the public sector, notwithstanding any compensation that may accrue to such public shareholder, either because it has been directly appointed as a member of the Board of Directors or because of the services provided to the Board or its delegated Committees by the individuals representing such public holder of shares in the capital of the Company, and which exceed any compensation to which he may be personally entitled under such legislation, all of the foregoing, pursuant to Transitional Provision Nine, while such ownership situation is maintained".*

There are no other additional bylaw restrictions differing from purely legal restrictions.

In turn, the National Energy Commission is authorized to take legal action to enforce the aforementioned statutory limits. Breach of the established shareholding limits constitutes a very serious infringement under the Electricity Industry Law and the individuals or legal entities that own the securities or to whom the excess shareholding is attributable will be liable.

The legal regime established in Royal Decree-Law 13/2012, of March 30, incorporated a number of Directives into Spanish law. One of these was Directive 2009/72/EC of July 13, 2009, which proclaims the mandatory independence of transmission companies and operators of European electricity systems. This endorsed the legal limits on holdings and voting rights applicable to the Company's shareholders.

Indicate whether there are statutory restrictions on the acquisition or transfer of holdings in the capital:

YES NO

Description of statutory restrictions on the acquisition or transfer of holdings in the capital
--

The transfer of the shares representing the capital of Red Eléctrica Corporación, S.A. is free and is not subject to any restriction. Electricity industry legislation establishes certain limits on shareholdings, in the terms set out above.



As for all listed entities, the acquisition of certain significant holdings must be notified to the issuer and to the CNMV, as provided in Article 53 of Securities Market Law 24/1988 of July 28, 1988, in Royal Decree 1362/2007 of October 19, 2007, and in CNMV Circular 2/2007 of December 19, 2007, which establish the first notification threshold at 3% of capital or voting rights.

A.11 Indicate whether the Shareholders' Meeting has resolved to adopt countermeasures in the event of a tender offer pursuant to the provisions of Law 6/2007.

YES NO

If so, explain the measures approved and the circumstances in which the restrictions would be ineffective:

B MANAGEMENT STRUCTURE OF THE COMPANY

B.1. Board of Directors

B.1.1. Give details of the maximum and minimum number of Directors provided for in the Corporate Bylaws:

Maximum number of Directors	13
Minimum number of Directors	9

B.1.2. Complete the following table indicating the particulars of the Board members:

Name of Director	Representative	Position in the Board	Date of first appointment	Date of last appointment	Appointment procedure
José Folgado Blanco		Chairman	22.05.08	19.04.12	Shareholders' Meeting
Alfredo Parra García-Moliner		Member	19.04.12	19.04.12	Shareholders' Meeting
Francisco Ruiz Jiménez		Member	19.04.12	19.04.12	Shareholders' Meeting
Fernando Fernández Méndez de Andés		Member	19.04.12	19.04.12	Shareholders' Meeting



María Angeles Amador Millán		Member	26.05.05	21.05.09	Shareholders' Meeting
Rui Manuel Janes Cartaxo		Member	20.05.10	20.05.10	Shareholders' Meeting
Miguel Boyer Salvador		Member	20.05.10	20.05.10	Shareholders' Meeting
Paloma Sendín de Cáceres		Member	19.04.12	19.04.12	Shareholders' Meeting
Carmen Gómez de Barreda Tous de Monsalve		Member	19.04.12	19.04.12	Shareholders' Meeting
Juan Irazo Martín		Member	19.04.12	19.04.12	Shareholders' Meeting
María José García Beato		Member	29.11.12	29.11.12	Board of Directors

Total number of Directors	11
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Indicate any Board members who vacated their office during the year:

Name of Director	Type of departing Director	Departure date
Rafael Suñol Trepát	nominee director	27.02.12
Francisco Javier Salas Collantes	Independent director	31.05.12
Luis María Atienza Serna	Executive director	8.03.12

B.1.3. Complete the following tables on the Board members and their status:

EXECUTIVE DIRECTORS

Name of Director	Nominated by (Committee)	Position in the Company organigram
José Folgado Blanco	Corporate Responsibility and Governance Committee	Chairman



Total number of Executive Directors	1
% Total of Board	9.09%

EXTERNAL NOMINEE DIRECTORS

Name of Director	Nominated by (Committee)	Name of significant shareholder represented or that nominated the Director
Alfredo Parra García-Moliner	Corporate Responsibility and Governance Committee	State-owned Industrial Holdings Company (SEPI)
Francisco Ruiz Jiménez	Corporate Responsibility and Governance Committee	State-owned Industrial Holdings Company (SEPI)
Fernando Fernández Méndez de Andés	Corporate Responsibility and Governance Committee	State-owned Industrial Holdings Company (SEPI)

Total number of Nominee Directors	3
% Total of Board	27.3%

EXTERNAL INDEPENDENT DIRECTORS

Name of Director	Profile
Maria Ángeles Amador Millán	<p>Profile</p> <p>October 10, 1949.</p> <p>Law Degree, Universidad Complutense de Madrid</p> <p>Professional Career</p> <p><i>Formerly:</i></p>



	<p>Technical General Secretary, Ministry of Public Works and Urban Development.</p> <p>Undersecretary, Ministry of Health and Consumer Affairs.</p> <p>Minister for Health and Consumer Affairs.</p> <p>Member of Parliament for Segovia.</p> <p>Member of Parliament for Madrid.</p> <p>Deputy Chairwoman, Constitutional Committee, Lower House of Parliament.</p> <p><i>Currently:</i></p> <p>Practicing attorney. Member, Advisory Board, Accenture.</p>
<p>Rui Manuel Janes Cartaxo</p>	<p><i>Profile</i></p> <p>July 9, 1952.</p> <p>Degree in Economics, Universidad Técnica de Lisboa.</p> <p><i>Professional Career</i></p> <p><i>Formerly:</i></p> <p>Lecturer, Instituto Superior de Economía y Gestión (ISEG).</p> <p>Economist, research area, Banco de Portugal.</p> <p>Consultant, OECD Department of Research (Paris).</p> <p>Financial Director, Ministry of Finance.</p>



	<p>Executive Director, CN-Comunicacoes Nacionais, SGPS, S.A.</p> <p>Executive Director, TRANSGÁS, S.A.</p> <p>CEO of GALP POWER.</p> <p>Executive Director, GALP ENERGÍA SGPS.</p> <p>Assistant to the Portuguese Minister of Economy and Innovation.</p> <p>CFO of REN-REDES ENERGÉTICAS NACIONAIS, SGPS.</p> <p><i>Currently:</i></p> <p>Chairman and CEO of REN-REDES ENERGÉTICAS NACIONAIS, SGPS</p>
<p>Miguel Boyer Salvador</p>	<p><i>Profile</i></p> <p>February 5, 1939.</p> <p>Degree in Physical Science and Economics, with special distinction, Universidad de Madrid.</p> <p><i>Professional Career</i></p> <p><i>Formerly:</i></p> <p>Director of Studies, Instituto Nacional Industria (I.N.I.)</p> <p>Head of Strategic Planning, Explosivos Río Tinto.</p> <p>Member of Parliament for Jaen.</p> <p>Director of Planning and Studies, Instituto Nacional de Hidrocarburos.</p>



	<p>Minister for Economy, Finance and Trade.</p> <p>Chairman, Banco Exterior de España.</p> <p>Member of the Review Committee, European Organization for Nuclear Research (CERN, Geneva).</p> <p>Member – as one of two experts – of the Expert Group on the Economic and Monetary Union of the European Union (“Delors Commission”)</p> <p>Chairman, Cartera Central.</p> <p>Chairman and Managing Director, Grucycsa.</p> <p>Deputy Chairman, FCC Construcción.</p> <p>Chairman, Compañía Logística de Hidrocarburos (CLH).</p> <p><i>Currently:</i></p> <p>Representative of Corporación Financiera Issos, on the Board of Directors of Reyal-Urbis, S.A.</p>
<p>Paloma Sendín de Cáceres</p>	<p><i>Profile</i></p> <p>September 19, 1951</p> <p>Graduate in Economics and Business Science, Universidad Autónoma de Madrid.</p> <p>Commercial Technician and State Economist. State Commercial Diploma.</p> <p><i>Professional Career</i></p> <p><i>Formerly:</i></p>



	<p>Director General of Promotion for ICEX.</p> <p>Director General of Mines.</p> <p>Chairman of the National Mining Safety Commission.</p> <p>Director General of the Institute for Restructuring of the Mining Industry and Alternative Development, reporting to the Ministry of Industry and Energy.</p> <p>Member of the Nuclear Safety Council (CSN) and member of a number of national and international commissions, representing the CSN before the OECD and other bodies.</p> <p>Director General of Administration and International Relations for the Organisation of Ibero-American States for Education, Science and Culture (OEI).</p> <p>Member and representative of Spain on various EC committees and workgroups.</p> <p>Member of the Organising Committee of the European Union Conference on Stakeholders.</p> <p>Member of the Organising Committee of the 2nd Forum on the Implications of the New Recommendations of the International Commission on Radiological Protection.</p> <p>Director of the Sociedad Estatal de Participaciones Industriales (SEPI) (1997-2000). Director of Hulleras del Norte (HUNOSA).</p> <p>Director, Banco Exterior de España. Director, Compañía Logística de Hidrocarburos (CLH).</p> <p>Director of FOCOEX.</p> <p>Director of Tabacos de Filipinas.</p>
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	<p>Director of SIRECOX.</p> <p>Director of the Centro para el Desarrollo Tecnológico Industrial (CDTI).</p> <p>Director of the Fábrica Nacional de Moneda y Timbre (FNMT).</p> <p>Director of Tabatrade.</p> <p>Director of the Banco Exterior de España, in the UK. Author of numerous articles and publications related to her professional activity.</p> <p>Speaker at conferences and events related to her professional activity in Spain, Europe, America and Asia.</p> <p>Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin.</p> <p><i>Currently:</i></p> <p>Advisory Committee Member of the Escuela Técnica Superior de Ingenieros de Minas de Madrid.</p> <p>Advisory Committee Member of the Fundación para Estudios sobre la Energía.</p>
<p>Carmen Gómez de Barreda Tous de Monsalve</p>	<p>Profile</p> <p>May 20, 1968</p> <p>Doctorate in Economics and Business Science from the Universidad Pontificia de Comillas (ICADE).</p> <p>Masters in Business Administration, IESE, Universidad de Navarra.</p>



	<p>Professional Career</p> <p><i>Formerly:</i></p> <p>Commercial manager of the cogeneration area for Enagás.</p> <p>Manager of international, petrochemical and marketing departments for Repsol.</p> <p>Service Development Manager for Unión Fenosa.</p> <p>Deputy Director of Oil Markets at the Comisión Nacional de Energía (CNE).</p> <p>Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).</p> <p>Responsible for Security of Supply Energy Regulations and Market Supervision at the Asociación Iberoamericana de Entidades Reguladoras de Energía (ARIAE).</p> <p>Representative of Security of Supply Group at the Council of European Energy Regulators (CEER).</p> <p>Lecturer on the Master's Programme on Energy, Telecommunications and Water Economics and Regulation at the Universidad de Barcelona.</p> <p>Lecturer on the Master's programme on the Electricity Sector at the ICAI.</p> <p>Lecturer in economic and</p>
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	<p>energy issues at various business schools (Club Español de la Energía, CESMA, Instituto de Estudios Bursátiles).</p> <p>Institutional Relations and Communications Manager for BP Oil España.</p> <p><i>Currently:</i></p> <p>Director General of the Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)</p>
<p>Juan Iranzo Martín</p>	<p><i>Profile</i></p> <p>November 26, 1956.</p> <p>Graduate in Economic and Business Science from the Universidad Complutense de Madrid.</p> <p>Doctor in Economic Science from the Universidad Complutense de Madrid.</p> <p><i>Professional Career</i></p> <p><i>Formerly:</i></p> <p>Management Control Manager for ENUSA.</p> <p>External Relations Manager and Economist at the Fundación FIES, CECA.</p> <p>Director of Studies at the Instituto de Estudios Económicos (IEE).</p> <p>Director General of the Instituto de Estudios Económicos (IEE).</p> <p>Lecturer in Economic Structure at various universities.</p>



	<p>Member of the Special Commission for Transparency and Safety in Financial Markets and Listed Companies (Aldama Commission).</p> <p><i>Currently:</i></p> <p>Professor of Applied Economics at UNED.</p> <p>Vice-chairman of the Instituto de Estudios Económicos (IEE).</p> <p>Deacon-Chairman of the College of Economists of Madrid.</p> <p>CUNEF lecturer.</p> <p>Academic member of the Real Academia de Autores.</p> <p>Director of the Grupo SANJOSE.</p> <p>Director, FERTIBERIA.</p> <p>Member, Advisory Board, CAP GEMINI.</p> <p>Member, Advisory Board, AGBAR.</p> <p>Chairman of the Club de Consejeros de España.</p> <p>Lecturer on the Master's "Advanced Corporate Responsibility Management Programme" at the Instituto de Empresa IE Business School.</p> <p>Member of the Health Advisory Council and the Permanent Council Commission of the Ministry of Health, Social Services and Equality.</p>
<p>María José García Beato</p>	<p>Profile</p> <p>May 27, 1965.</p> <p>Law Degree, Universidad de</p>



	<p>Cordoba. State attorney.</p> <p>Professional Career</p> <p><i>Formerly:</i></p> <p>State Attorney at the High Court of Justice in Madrid.</p> <p>Head of the Legal Services Department of the Data Protection Agency.</p> <p>Spanish representative on the Council of Europe Data Protection Consultative Committee.</p> <p>Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for the CERES (Spanish certification of electronic transactions) project.</p> <p>State Attorney in the Sub-division of the State Legal Services Division.</p> <p>State Attorney in the Communications Secretariat at the Development Ministry.</p> <p>Cabinet Chief at the Ministry of Justice.</p> <p>Director, Infoinvest, S.A., Director, Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA), Director, Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI), Director, Sociedad Estatal Correos y Telégrafos, S.A., Director, Banco Guipuzcoano, S.A. Director, Banco CAM, S.A. Undersecretary for Justice. State Attorney in the Audiencia</p>
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	<p>Nacional (National Court) Legal Department.</p> <p>Head of Legal Services, Banco Sabadell.</p> <p>Secretary of the Board of Directors of Retevisión, S.A.</p> <p>Secretary of the Board of Directors of Banco Urquijo, S.A.</p> <p><i>Currently:</i></p> <p>Non-director, vice-secretary of the Board of Directors of Banco de Sabadell, S.A.</p> <p>General Secretary and member of the Management Committee of Banco Sabadell, S.A.</p> <p>Secretary of the Board of Directors of Sabadell United Bank (Miami).</p> <p>Trustee of the Fundación Española de Banca para Estudios Financieros (FEBEF).</p> <p>Secretary of the Trustees of the Fundación de Estudios de Economía Aplicada (FEDEA).</p> <p>Member of the advisory council of the publisher Wolters Kluwer España, S.A.</p> <p>Trustee of the Fundación Wolters Kluwer.</p> <p>Advisory Council Member of the Fundación Cajasur.</p>
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Total number of Independent Directors	7
% Total of Board	63.7%

OTHER EXTERNAL DIRECTORS

Name of Director	Nominated by (Committee)
--	--



Total number of External Directors	--
% Total of Board	--

Give details of the reasons why they cannot be considered Nominee or Independent Directors and their relationships, either with the Company or its executives, or with Company shareholders:

Name of Director	Reasons	Company, executive or shareholder with which the relationship is held
--	--	--

Indicate any variations in the status of each Director that may have occurred during the year:

Name of Director	Date of change	Previous status	Current status
--	--	--	--

B.1.4. Explain, where applicable, the reasons why Nominee Directors have been appointed at the request of shareholders whose holdings are less than 5% of capital:

Name of shareholder	Justification
--	--

Indicate whether any formal requests for presence on the Board have not been honoured from shareholders whose shareholdings are greater than or equal to those of others upon whose request Nominee Directors have been appointed. Explain, where applicable, why the requests have not been honoured:

YES NO

Name of Director	Explanation
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B.1.5. State whether any Director has resigned his position before the end of his term of office, whether that Director explained his reasons to the Board and, if so, in what way, and, where he did so in writing to the entire Board, explain at least the reasons given by that Director:

Name of Director	Reason for resignation



Rafael Suñol Trepas	--
Luis María Atienza Serna	--
Francisco Javier Salas Collantes	Position became legally incompatible

At its meeting held on February 27, 2012, the Board of Directors accepted the resignation tendered by Rafael Suñol Trepas, from his position as nominee director of Red Eléctrica Corporación, S.A. in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

At its meeting on March 8, 2012, the Board of Directors agreed to remove the chairman of the Board of Directors and Chief Executive of the Company, Luis M^a Atienza Serna, and accepted his resignation as a Director of the Company.

At its meeting held on May 31, 2012, the Board of Directors accepted the resignation tendered by Francisco Javier Salas Collantes from his position as independent director of the Company, following the entry into force of Royal Decree-Law 13/2012, incorporating into Spanish law the provisions of Directive 2009/72/EC of the European Parliament and of the Council of July 13, 2009 concerning common rules for the internal market in electricity. This established the incompatibility of simultaneously being a member of the governing body of an electricity system operator and of a company involved in electricity generation: this is the case with Abengoa Solar, S.A., of which Mr. Salas Collantes was a director.

B.1.6. Indicate what powers, if any, have been delegated to the Managing Director(s):

Name of Director	Brief description
José Folgado Blanco	At its meeting on April 26, 2012, the Company's Board of Directors unanimously agreed: <i>"To delegate to the Chairman of the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A., Mr. José Folgado Blanco, pursuant to the provisions of Article 249 of the current Corporate Enterprises Law, Article 149 of the Mercantile Registry Regulations, Article 22 of the Corporate Bylaws and Article 5 of the Regulations of the Board of Directors, all powers of the Board of Directors that may be delegated by law and pursuant to the Bylaws."</i>



B.1.7. Identify, as appropriate, which members of the Board hold office as Directors or executives at other companies forming part of the listed Company's Group:

Name of Director	Name of Group entity	Position
José Folgado Blanco	Red Eléctrica Internacional, S.A. (Sole-Shareholder Company)	Joint Director
José Folgado Blanco	Red Eléctrica del Sur, S.A. (REDESUR)	Chairman of the Board of Directors

B.1.8. Give details, as appropriate, of any Company Directors who are members of the boards of directors of other entities outside the Group that are listed on official securities markets in Spain, as disclosed to the Company:

Name of Director	Name of listed entity	Position
Juan Iranzo Martín	Grupo San José	Director
Fernando Fernández Méndez de Andés	Bankia, S.A.	Director

B.1.9. Indicate and explain, as appropriate, whether the Company has established rules on the number of Committees of which its Directors may be members:

YES NO

Explanation of the rules
<p>As part of the basic duties of the Corporate Responsibility and Governance Committee in respect of the appointment and removal of directors, Article 16.1 f) of the Regulations of the Board of Directors provides for the evaluation of the time and dedication necessary for directors to perform their work with due quality and efficiency, evaluating for these purposes whether their position as a director is compatible with membership of other managing bodies of companies.</p> <p>In this regard, the Corporate Responsibility and Governance Committee has the power to analyze and authorize, as the case may be, the members of the Board of Directors of Red Eléctrica to join the boards of directors of other companies.</p>



Article 7.3 of the Regulations of the Board of Directors limits the maximum number of boards of other listed companies on which an Independent Director may sit to two.

B.1.10. Regarding Recommendation 8 of the Unified Code, state the general policies and strategies of the Company reserved for approval to the plenary session of the Board:

	Yes	No
Investment and financing policy	X	
Definition of the structure of the corporate group	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
The strategic or business plan, as well as annual management objectives and budget	X	
Policy regarding compensation and performance evaluation of senior executives	X	
Risk control and management policy, as well as periodic monitoring of internal reporting and control systems	X	
Dividend and treasury stock policy and, in particular, their limits	X	

B.1.11. Complete the following tables on the aggregate compensation of Directors during the year:

a) At the Company to which this report relates⁴:

Compensation Item	€ Thousand
Fixed compensation	402
Variable compensation	1,038
Attendance fees	895
Bylaw-stipulated fees	--
Stock options and/or other financial instruments	--
Other ⁵	4

⁴ Section G of this report includes this information, broken down by Director.



TOTAL:	2,339⁶
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Other benefits	€ Thousand
Advances	
Loans granted	
Pension funds and plans: Contributions	3
Pension funds and plans: Agreed obligations	-
Life insurance premiums	1
Guarantees provided by the Company for Directors	
TOTAL:	4

b) Due to membership of the Company's Directors of other boards of directors and/or senior management of Group companies:

Compensation Item	€ Thousand
Fixed compensation	
Variable compensation	
Attendance fees	
Bylaw-stipulated fees	
Stock options and/or other financial instruments	
Other	
TOTAL:	

Other benefits	€ Thousand
Advances	
Loans granted	
Pension funds and plans: Contributions	
Pension funds and plans: Agreed obligations	
Life insurance premiums	
Guarantees provided by the Company for directors	

c) Total compensation by type of Director:

⁵ This section is broken down in the following table under "Other benefits".

⁶ Clarification exclusively for Section G) of the official CNMV form. This amount should be increased by 61 thousand euros in relation to independent and nominee director vacancies in 2012. As a result, total compensation, including all items would be 2,400 thousand euros.



Type of Director	By company	By Group
Executive	767	
External Nominee	480	
External Independent ⁷	1,092	
Other External		
Total	2,339⁸	

d) With respect to income attributed to the parent company⁹:

Total Directors' compensation (€ thousand)	2,339 ¹⁰
Total Directors' compensation / Income allocated to parent company (as a %)	0.47

B.1.12. Identify the members of senior management who are not, in turn, Executive Directors, and indicate the total compensation paid to them during the year:

The senior managers who rendered services throughout 2012 are detailed below:

Name	Position
Carlos Collantes Pérez-Ardá	Director-General of Transmission
Esther M ^a Rituerto Martínez ⁽¹⁾	Director-General of Administration and Finance
Andrés Seco García	Director-General of System

⁷ José Folgado Blanco was appointed Executive Chairman of the Company on March 8, 2012. Before this, he had been an External Independent Director, having accrued 39 thousand euros in this role over this period.

⁸ Refer to the clarification exclusively for section B 1.11a) relating to section G) of the official CNMV form.

⁹ The income obtained by the RED ELÉCTRICA Group and attributed to the parent company in 2012 amounted to 492,288 thousand euros (460,348 thousand euros in 2011).

¹⁰ Clarification exclusively for Section G) of the official CNMV form. For 2,400 thousand euros, the percentage for this item would be 0.49%.



	Operation
Alberto Carbajo Josa ⁽¹⁾	Director-General of System Operation

⁽¹⁾ Left the company in 2012.

The persons holding senior management positions at the Company at December 31, 2012, excluding the chief executive, were as follows:

Name	Position
Carlos Collantes Pérez-Ardá	Director-General of Transmission
Andrés Seco García	Director-General of System Operation
Total senior management compensation (€ Thousand)	1023 ¹¹

B.1.13. Identify, in aggregate terms, whether there are any safeguard or golden parachute clauses for members of senior management, including the Executive Directors of the Company or of its Group, in the event of dismissal or changes in control. Indicate whether these contracts have to be disclosed to and/or approved by the bodies of the Company or of its Group:

Number of beneficiaries	2
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	Board of Directors	Shareholders' Meeting
Body authorizing the clauses	X	

	YES	NO
Is the Shareholders' Meeting informed of the clauses?	X	

The contract of the current Executive Director was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's Board of Directors. In accordance with common market practices, this contract includes indemnification equal to one year's

¹¹ This amount corresponds to the compensation of senior managers who rendered services throughout 2012. This includes 27 thousand euros in life insurance and pension plan contributions.



salary in the event of termination of the mercantile relationship through dismissal or change of control.

There are safeguard or golden parachute clauses for members of the Company's current senior management. These clauses are in line with standard market practices and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless the applicable legislation provides for a higher amount. The contracts containing these clauses were approved by the Corporate Responsibility and Governance Committee and they were duly notified to the Board of Directors.

B1.1.4. Indicate the process for establishing the compensation of the members of the Board and the relevant Bylaw provisions:

Process for establishing the compensation of Board members and Bylaw clauses

Provisions regarding the compensation of the members of the Board of Directors are currently contained in Article 20 and in the Sole Additional Provision of the Bylaws, as well as in Article 27 of the Regulations of the Board of Directors. These provisions are set forth below:

I. Corporate Bylaws:

Article 20:

"...The compensation of the Board of Directors shall consist of a fixed monthly fee for the attendance of Board meetings and a share in the Company's income. Overall annual compensation for the entire Board and for the above items shall be 1.5 percent of the Company's net income, approved by the Shareholders' Meeting. The above compensation is, in all cases, a maximum figure and the Board itself shall be in charge of allocating the amount among the aforesaid items and among the Directors in such manner, at such time and in such proportion, as it freely determines. Pursuant to Article 218.2 of the Corporate Enterprises Law, compensation in the form of a share in income may only be received by Directors after the provisions to the legal and bylaw reserves have been covered and the shareholders have been recognized a dividend of not less than 4%.

Compensation consisting of the award of shares or stock options or compensation linked to share value shall require a resolution of the Shareholders' Meeting, which must state the number of shares to be awarded, the price for exercising the options, the share value taken as a reference and the term of this compensation system.



The compensation stipulated in this Article shall be compatible with and independent of salaries, wages, severance pay, pensions or compensation of any kind established generally or individually for members of the Board of Directors who hold an ordinary or special senior management employment relationship or an independent professional relationship with the Company, which relationships shall be compatible with the status of member of the Board of Directors...”.

Sole Additional Provision, second paragraph:

“Where a Director who is an individual holds office on behalf of the shareholder referred to in Transitional Provision Nine in relation to Article 34.1 of the Electricity Industry Law- Sociedad Estatal de Participaciones Industriales- his compensation must be in keeping with the applicable provisions on incompatibility in the public sector, notwithstanding any compensation that may accrue to such public shareholder, either because it has been directly appointed as a member of the Board of Directors or because of the services provided to the Board or its delegated Committees by the individuals representing such public holder of shares in the capital of the Company, and which exceed any compensation to which he may be personally entitled under such legislation, all of the foregoing, pursuant to Transitional Provision Nine, while such ownership situation is maintained”.

II. Regulations of the Board of Directors (Article 27):

“1. Directors shall be entitled to obtain such compensation as is established by the Shareholders’ Meeting and by the Board of Directors in accordance with the provisions of the Corporate Bylaws and those contained in these Regulations.

2. The compensation policy approved by the Board of Directors shall cover at least the following matters:

a) The amount of the fixed compensation items, itemizing any fees for attending Board and Committee meetings, with an estimate of the annual fixed compensation to which they give rise.

b) Variable components, in particular:

i) The types of Director to which they apply, with an explanation of the relative weighting of variable to fixed compensation items;

ii) Criteria for evaluating results on which any right to compensation is based.



iii) *Fundamental parameters and the basis for any system of annual bonuses or other benefits not paid in cash.*

iv) *An estimate of the absolute amount of the variable compensation arising from the proposed compensation plan, depending on the degree of compliance with the assumptions or objectives taken as a reference.*

This shall also include the technical safeguards necessary to ensure that such variable compensation is in line with the professional performance of its beneficiaries and is not merely the result of the general performance of the markets or of the industry in which the Company operates, or other similar circumstances.

c) *The principal characteristics of corporate welfare systems, with an estimate of their amount or equivalent annual cost*

d) *Conditions that must be observed in the contracts of those exercising senior management functions as Executive Directors, including term, advance notice periods and any other clauses relating to signing bonuses, as well as indemnification for early termination or termination of the contractual relationship between the Company and the Executive Director.*

3. *Compensation by way of the award of Company shares, on the terms authorized by the Shareholders' Meeting, variable compensation linked to the Company performance and corporate welfare systems shall be reserved to Executive Directors.*

4. *Compensation linked to the Company's earnings shall take into account any qualifications stated in the external auditor's report that reduce such income.*

5. *Directors' compensation shall be transparent. For such purpose, the Corporate Responsibility and Governance Committee shall prepare an annual report on Directors' compensation, which shall include:*

a) *A breakdown of the compensation of each Director, to include where appropriate:*

i) *Any attendance fees and other fixed compensation as Director.*

ii) *Additional compensation as a member of any Board Committee.*

iii) *Any compensation in the form of a share in income or premiums, and the reason for which it is granted.*



- iv) Contributions on behalf of Executive Directors to fixed-contribution pension plans, or any increase in the vested rights of Executive Directors in the case of contributions to fixed-benefit plans.
- v) Any severance agreed or paid in the event of termination of their functions.
- vi) Any compensation received as a Director of other Group companies.
- vii) Compensation for the performance of senior management functions by Executive Directors.
- viii) Any other compensation item other than those listed above, regardless of its nature or the Group company that pays it, especially where it is deemed a related-party transaction or where its omission distorts the true and fair view of the compensation received by the Director.

b) An individual breakdown of any award of shares to Executive Directors, on the terms authorized by the Shareholders' Meeting.

c) Information on the relationship, in the preceding year, between the compensation obtained by Executive Directors and the earnings or other performance indicators of the Company.

Indicate whether approval of the following decisions is reserved to the plenary session of the Board:

	YES	NO
At the proposal of the Company's Chief Executive, the appointment and removal of senior executives and their indemnification clauses	X	
Directors' compensation and, in the case of Executive Directors, the additional consideration for their executive functions and other contractual conditions that must be observed	X	

B.1.15. Indicate whether the Board of Directors approves a detailed compensation policy and specify the matters addressed by it:

YES X NO

	YES	NO
The amount of the fixed compensation items, broken down, where necessary, into attendance fees for Board and Board Committee meetings, and an estimate of the fixed annual compensation to which they give rise	X	
Variable compensation items	X	
The principal characteristics of corporate welfare systems, with an estimate of their amount or	X	



equivalent annual cost		
Conditions to be respected in the contracts of those individuals exercising senior management functions as Executive Directors	X	

B.1.16. Indicate whether the Board submits a report on the Directors' compensation policy to the advisory vote of the Shareholders' Meeting, as a separate item on the agenda. As appropriate, explain the aspects of the report on the compensation policy approved by the Board for future years, the most significant changes in that policy by comparison with the policy applied during the year, and an overall summary of how the compensation policy was applied during the year. Describe the role of the Compensation Committee and, where external advisers have been used, identify the external consultants engaged:

YES NO

Matters addressed by the compensation policy report
<p>The report on Red Eléctrica's compensation policy is prepared following the recommendations of the Conthe Code (section 40), the European Commission Recommendation of December 14, 2004 and the European Commission Recommendation of April 30, 2009 as regards the regime for the compensation of Directors of listed companies, which has been incorporated into Sustainable Economy Law 2/2011, of March 4, 2011, which added Article 61. ter to the Securities Market Law. This Article introduces the obligation of the boards of directors of listed companies to prepare an annual report on directors' compensation, to include complete, clear and understandable information on the compensation policy of the company approved by the board for the year in question and, as the case may be, the policy envisaged for future years. It also establishes that the report shall also include an overall summary of how the compensation policy was applied during the year, and a breakdown of the individual compensation earned by each Director, which shall be disclosed and submitted to the advisory vote of the Annual Shareholders' Meeting, as a separate item on the agenda.</p> <p>Over and above the requirements of Article 61. ter of the Securities Market Law, for several years now Red Eléctrica has been voluntarily submitting the compensation of the Board of Directors of the Company for approval by the Annual Shareholders' Meeting. Both the report on director's compensation and the resolution to be proposed to the Shareholders' Meeting regarding Board compensation were submitted by the Board -as separate items, 10.2 and 10.1, respectively, on the Agenda for the Shareholders' Meeting- to the Annual Shareholders' Meeting held on April 19, 2012.</p> <p>The report on directors' compensation approved by 2012 Annual Shareholders' Meeting took into account not only the requirements of the new Article 61. ter of</p>



the Securities Market Law but also the requests for information from foreign international investors and their advisers, as well the most advanced national and international corporate governance practices in this area.

For further information, refer to the Annual Report on the compensation of the directors that will be submitted to the next Annual Shareholders' Meeting, once this has been called.

Role of the Corporate Responsibility and Governance Committee

The policy for applying the bylaw compensation criteria was proposed by the Corporate Responsibility and Governance Committee and approved by the Board of Directors, without prejudice to its subsequent submission to the Shareholders' Meeting for approval.

The Committee met on 20 occasions in 2012, for the most part to address compensation matters relating to the Company's Board and senior management.

	YES	NO
Was external advice sought?	x	
Identity of external consultants	Towers Watson ¹²	

B.1.17. Indicate, as appropriate, which members of the Board are, in turn, members of the boards of directors, executives or employees of companies that own significant holdings in the listed Company and/or in entities of its Group:

Name of Director	Name of significant shareholder	Position
Alfredo Parra García-Moliner	State-owned Industrial Holdings Company (SEPI)	General Secretary and Secretary of the Board
Francisco Ruiz Jiménez	State-owned Industrial Holdings Company (SEPI)	Director General

Give details, as appropriate, of any material relationships, other than those envisaged under the preceding heading, of the members of the Board of Directors with significant shareholders and/or entities in its Group:

¹² Legal advisors on the preparation of the Annual Report on the compensation of the directors for the 2013 Annual Shareholders' Meeting .



Name of related Director	Name of related significant shareholder	Description of relationship
--	--	--

B.1.18. Indicate whether there have been any amendments to the Regulations of the Board of Directors during the year:

YES NO X

Description of amendments

B.1.19. Indicate the procedures for the appointment, reappointment, evaluation and removal of Directors. Give details of the competent bodies, the formalities to be fulfilled and the criteria to be used in each of the procedures.

1. Appointment and reappointment

Article 19 of the Regulations of the Board of Directors provides that Directors will be appointed by the Shareholders' Meeting or by the Board of Directors by way of co-optation. The Corporate Responsibility and Governance Committee must report in advance on the proposed appointment of Directors, including by way of co-optation. Within the scope of its powers, the Board of Directors will procure that the candidates appointed are of good standing, competence and experience, as provided in Article 20 of the Regulations.

As provided in Article 21 of the Regulations, Directors will hold office for the period stipulated in the Corporate Bylaws. Proposals submitted by the Board to the Shareholders' Meeting for the appointment or reappointment of Directors, as well their provisional appointment by co-optation, will be approved by the Board:

- i) At the proposal of the Corporate Responsibility and Governance Committee, in the case of Independent Directors.
- ii) Following a report by the Corporate Responsibility and Governance Committee in the case of all other Directors.

Article 20 of the Corporate Bylaws establishes a four-year term of office for Directors, who may be reappointed indefinitely. As provided



in Article 7 of the Regulations of the Board of Directors, Independent Directors may not remain in office for a continuous period of more than twelve years.

In October 2011, the Board of Directors approved a Board Chairman Succession Plan, in accordance with the most recent international corporate governance practices.

This Plan was applied for the first time in 2012, organizing the handover of the position of the Company's Executive Chairman from Luis Atienza Serna to José Folgado Blanco, helping to achieve an orderly succession.

2. Evaluation of Directors

At its meeting on October 25, 2012, the Board of Directors took note of the conclusions and recommendations of the external assessment process of the Board of Directors, its committees and its chairman relating to fiscal year 2011. At the express decision of the Corporate Responsibility and Governance Committee, this assessment process was commissioned from KPMG, specialist external advisors in the area, to give a more objective and independent external opinion of the issues analysed. This report included the following improvement proposals:

- Increase director independence. The report proposes defining independence criteria for directors, and periodically assessing the independence of the directors included in this category formally and publically.

- Be more in touch with investors. The Board of Directors should, periodically and formally, collect information to help it understand in greater detail than at present the perceptions of institutional investors and the most important asset managers for the company.

- Dedicate more time to strategy and risks. The Board of Directors should dedicate more time to one of the main functions assigned to it: reviewing, approving and guiding strategy, major operations, budgets, business plans and annual performance targets, and supervising the implementation of the decisions adopted.

- Increase supervision of Senior Management. The performance assessment process for the Company's senior management should be carried out in a more formal and periodic manner, bolstering supervision of aspects relating to the contract conditions of executive directors and members of senior management.



-Bring compensation more into line with the interests of investors and external expectations. The Company's compensation system for the Board and senior management should be reviewed in the light of the recommendations of the International Corporate Governance Network, in accordance with the criteria established by the investors most important to the Company, and the Company's policy in this area should be set out.

-Two roles, two people. The Company should consider whether it might be appropriate to separate the functions of the Chairman of the Board of Directors from those of the Executive Director of the Company, as these are currently performed by the same person. The Company should assess the value of appointing a lead independent director or a vice-chairman to act as such.

As in the previous year, and as expressly requested by the Corporate Responsibility and Governance Committee, the self-assessment process of the Board of Directors of Red Eléctrica Corporación for 2012 was carried out with the support of the independent expert advisors KPMG. This process has included personal interviews with the directors in the presence of Company employees. The process is now in its final stage.

There were a number of major changes to the Company's Board of Directors in 2012. On December 31, 2012, only four of the eleven directors who had been in position 12 months previously were still in post. KPMG regards this as making the process particularly rich as, in its opinion, it has enabled the Company to combine the experience of the longest-serving directors with the fresh outlook and approach of the directors who joined during the year.

The main development in the assessment process, according to KPMG, was the introduction of a section specifically dedicated to assessing the performance of the Company's chief executive. As a result, the Chairman of the Board of Directors was assessed in two ways: firstly, the directors assessed his year as leader of the Company's governing body; and secondly, they assessed his performance as the Company's chief executive. In both regards, the Executive Chairman's performance was classified as satisfactory.

In the assessment process, the directors highlighted the Board's rigorousness, independence of judgement and the commitment to the most advanced corporate governance practices. They also stated their conviction of the importance of their responsibilities for the Company's reputation and the confidence of capital markets. Many of the directors stated a desire to seek opportunities to intensify interaction between the Board of Directors and investors, as recommended in some international best practices.



The interviews also threw light on improvement proposals related to the day-to-day operations of the Board of Directors; these are the result of the continuous improvement that, following the 2012 changes, is reinforcing the dynamics of the Board's operations.

3. Removal.

Article 22 of the Regulations of the Board of Directors provides that Directors will cease to hold office at the end of the term for which they were appointed or when so decided by the Shareholders' Meeting in exercise of the authority conferred upon it by law or the Bylaws. The Board of Directors must not propose the removal of an Independent Director prior to the completion of the term of office specified in the bylaws for which the Director was appointed, unless there is just cause and subject to a report from the Corporate Responsibility and Governance Committee.

Directors must tender their resignation to the Board of Directors and, if the Board deems it appropriate, formally resign in the cases contemplated in Article 22.2 of the Regulations of the Board of Directors and listed in section B.1.20 below.

Article 22.3 of the Regulations of the Board of Directors provides that Committee members will vacate their office when they relinquish their directorships.

When a Director vacates his office before the end of his term, by reason of resignation or otherwise, he will explain the reasons in a letter to be sent to all members of the Board, the matter being reported in the Annual Corporate Governance Report, as provided in Article 22.4 of the Regulations of the Board of Directors.

B.1.20. Indicate the cases in which Directors must resign:

Article 22.2 of the Regulations of the Board of Directors provides that Directors must tender their resignation to the Board of Directors and, if the Board deems it appropriate, formally resign, in the following cases:

“a) Upon reaching 70 years of age.

b) When they are subject to any of the grounds of incompatibility or prohibition provided for by law.



- c) *When they are convicted of an offense or penalized for a serious or very serious infringement in disciplinary proceedings conducted by the supervisory authorities of the securities, energy and telecommunications markets.*
- d) *When they have seriously breached their obligations as Directors.*
- e) *When they stand down from the executive positions with which their appointment as Director was associated.*
- f) *When their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Article 30.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members.*

If a Director is indicted or a decision is rendered to bring him to trial for any of the crimes referred to in Article 124 of the Corporations Law, the Board shall review the matter as soon as possible and, in light of the specific circumstances, shall decide, as provided for in the preceding paragraph, whether or not it is appropriate for the Director to remain in office. All of the foregoing will be reported on in the Annual Corporate Governance Report.

- g) *In the case of a Nominee Director, when the shareholder whose shareholding interests he represents on the Board disposes of its shareholding in the Company or reduces it below the level which reasonably justified his appointment as such".*

B.1.21. Explain whether the function of Company Chief Executive falls to the Chairman of the Board. As appropriate, indicate what measures have been taken to limit the risks of power being concentrated in the hands of one person:

YES NO

Measures to limit risks
<p>Article 25 of the Corporate Bylaws states that the Chairman of the Board is the Chairman of the Company and of its governing and management bodies.</p> <p>Furthermore, he is the person responsible for senior management and full representation of same in all matters, acting with the</p>



powers delegated by the Board.

The Chairman has the power to adopt, for reasons of urgency, the measures he deems appropriate in the interests of the Company, but must immediately report on such measures to the Board of Directors. All of the foregoing is without prejudice to regular reporting to ordinary Board meetings on the corporate management of the different areas of the Company, requesting, as the case may be, approval of the resolutions submitted.

In particular, pursuant to the provisions of Article 5.6 of the Regulations of the Board of Directors, the Board is reserved *"the direct exercise of the following responsibilities that cannot be delegated, except for those contemplated in letters b) and c) below, which may be adopted for reasons of urgency by the Chairman of the Company and subsequently ratified by the Board:*

- a) *Approval of the general policies and strategies of the Company and, in particular:*
 - i) *Approval of the strategic or business plan of the Company and its Group, as well as the annual budget and management objectives.*
 - ii) *Approval of the investment and financing policy.*
 - iii) *Approval of the definition of the structure of the corporate Group.*
 - iv) *Approval of the corporate governance policy.*
 - v) *Approval of the corporate responsibility policy.*
 - vi) *Approval of the policy regarding compensation and evaluation of senior executives.*
 - vii) *Approval of the policy for control and management of the principal risks of the Company and of the Group, and knowledge and periodic monitoring of internal control, prevention and reporting systems.*

The risk control and management policy shall identify at least the following:



- *The different kinds of risk (operating, technological, financial, legal, reputational, etc.) the Company is exposed to, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks.*
- *The determination of the risk level the Company deems to be acceptable.*
- *The measures envisaged to mitigate the impact of the identified risks, should they materialize.*
- *The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.”*

viii) Approval and, if applicable, proposal to the Shareholders' Meeting of the dividend and treasury stock policies, in particular, the limits thereof.

ix) Those specifically stipulated in these Regulations.

b) The following decisions:

i) Directors' compensation and, in the case of Executive Directors, the additional consideration for their executive functions and other contractual conditions that must be observed.

ii) Financial information that the Company must periodically disclose as a listed company.

iii) Investments or transactions deemed to be strategic by virtue of their high amount or special characteristics, unless their approval corresponds to the Shareholders' Meeting.

iv) The creation or acquisition of holdings in special-purpose vehicles or entities domiciled in countries or territories that are considered tax havens, and any other transactions and operations that could impair the transparency of the Group.

c) The authorisation of related-party transactions, as defined by legislation in force from time to time, that are material or outside the ordinary course of business of the Company and must be



reported obligatorily to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee.

Where a related-party transaction involves a Director, in addition to not exercising or delegating his right to vote, the Director shall leave the meeting while the Board of Directors deliberates and votes on the transaction, after having informed the Board of the transaction.

d) *The annual evaluation of:*

- i) *The quality and efficiency of the functioning of the Board and the performance by the Chairman of his functions, based on a report referred thereto by the Corporate Responsibility and Governance Committee.*
- ii) *The functioning of its Committees, based on the reports referred thereto by them.*

To all of the foregoing it should be added that the existence of the Audit Committee and of the Corporate Responsibility and Governance Committee, entirely composed of members of the Board of Directors specializing in matters within their sphere of responsibility, reinforces the specific control exercised over the basic and strategic responsibilities of the Board of Directors, which in no event will be performed exclusively by the Chairman.

Indicate and, as appropriate, explain whether rules have been established allowing Independent Directors to request the call of Board meetings or the inclusion of new items on the agenda in order to coordinate and give voice to the concerns of External Directors and to lead the evaluation by the Board of Directors

YES X NO

Explanation of the rules

Directors may request the inclusion of new items on the agenda for Board meetings without limitation. In this regard, pursuant to Article 17 of the Regulations of the Board of Directors, a Board meeting may be called by three Directors.

Therefore, any Director may request a Board meeting to be called, and, where jointly requested in writing by three Directors, independently of the type of Director, the Corporate Bylaws and the Regulations of the Board of Directors establish that the Board must



meet, thus providing greater flexibility for calling Board meetings.

Management of the evaluation process is expressly delegated to the Corporate Responsibility and Governance Committee.

The Regulations of the Board of Directors attribute to the Chairman of the Corporate Responsibility and Governance Committee, who is an Independent Director, the function of communication and coordination between External and/or Independent Directors in the discharge of their duties, and include the possibility of requesting a Board meeting to be called or the inclusion of new items on the agenda at the request of any Director, as well as the coordination of the concerns of External Directors.

Law 25/2011, of August 1, 2011, partially reforming the Corporate Enterprises Law, establishes the possibility that Directors making up less than one-third of the members of the Board may call a Board meeting, setting the agenda, to be held in the municipality of the registered office, if, after making a request to the Chairman, the Chairman fails to call the meeting within one month without just cause.

B.1.22. Are qualified majorities, other than the statutory majorities, required for any type of decision?

YES NO

Indicate how resolutions are adopted on the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

Adoption of resolutions		
Type of resolution	Quorum	Type of majority
Any resolution	Half plus one of the Directors present in person or by proxy (art.18 of the Bylaws)	Simple
Except for modification of the Regulations of the Board of Directors, pursuant to article 3.4 of the Regulations	Idem	Two thirds



Except for the removal or retirement of a Director when their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Article 30.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members, in accordance with article 22.2f) of the Regulations.	Idem	Two thirds
---	------	------------

No provision is made for resolutions that require a qualified majority for their adoption, apart from those specifically contemplated in the applicable legislation and those relating to amendments to the Regulations of the Board of Directors and removal or retirement referred to above.

Except in cases where other quorum requirements have been specifically established, the Board will be validly constituted where at least half plus one of its members are present, in person or by proxy. Where an odd number of Directors are present, a sufficient quorum will be deemed to exist if the next whole number immediately exceeding half of the Directors is present.

Article 21 of the Corporate Bylaws establishes that any Director may grant a proxy to another Director, in writing and specifically for each meeting, to attend and vote on his behalf at meetings of the Board of Directors, procuring that the proxy is granted to a Director of the same type as the Director represented (Article 28.2 b of the Regulations of the Board of Directors).

The Chairman will be tasked with organizing the debate, ensuring and encouraging the participation of all Directors in Board deliberations, and putting the items to a vote once he deems them to have been sufficiently debated. Each Director, present in person or by proxy, will have one vote.

Article 21 of the Bylaws and Article 18 of the Regulations of the Board of Directors establish that resolutions will be adopted by majority vote, unless the law requires that resolutions be adopted by a higher majority or in the aforesaid case of amendment of the Regulations of the Board of Directors, as specified in Article 3.4 thereof and for retirement and removal as set forth in article 22.



B.1.23. Explain whether there are any specific requirements, apart from those relating to the Directors, to be appointed Chairman:

YES NO

Description of requirements
--

B.1.24. Indicate whether the Chairman has a casting vote:

YES NO

Matters on which there is a casting vote
In the event of a tied vote, the Chairman will have the casting vote and will decide upon the issue independently of the subject matter of the resolution being voted on (Article 21 of the Corporate Bylaws and Article 18.3 of the Regulations of the Board of Directors).

B.1.25. Indicate whether the Bylaws or the Regulations of the Board of Directors impose any limit on the age of Directors:

YES NO

Age limit for Chairman 70

Age limit for Managing Director -- Age limit for Director 70

Article 22 of the Regulations of the Board of Directors provides that Directors must tender their resignation to the Board of Directors and, where the Board deems it appropriate, formally resign once they reach seventy (70) years of age.

B.1.26. Indicate whether the Bylaws or Regulations of the Board of Directors establish any limit on the term of office of Independent Directors:

YES NO

Maximum number of years in office	12
--	----

As with all other Company Directors, Independent Directors will hold office for four years and may be reappointed indefinitely.

Notwithstanding the foregoing, as provided in Article 7.2 c) *in fine* of the Regulations of the Board of Directors, Independent Directors may not remain in office for a continuous period of more than twelve years.



As already indicated in Section B.1.19 above, unless there is sufficient cause and subject to a report by the Corporate Responsibility and Governance Committee, the Board of Directors may not propose the removal of any External Directors before the end of the term for which they were appointed.

B.1.27. Where female Directors are few or non-existent, explain the reasons why and the initiatives adopted to correct the situation

Explanation of reasons and initiatives
<p>In line with Recommendation 15 of the Conthe Code, the aim of gradually adding female Directors with the appropriate qualifications and experience to the Board served as a guide for the reports and proposals of the Corporate Responsibility and Governance Committee and of the Board of Directors. As a result, two female Directors were appointed by the Annual Shareholders' Meeting held on May 22, 2008.</p> <p>In 2009 and 2010, Red Eléctrica Corporación, S.A. was in first place in the IBEX 35 for the highest percentage of female members of the Board of Directors (27.3%), with three female directors.</p> <p>In 2012, the Board of Directors de Red Eléctrica Corporación S.A. continued incorporating best practice recommendations relating to gender diversity. At the end of 2012, four (36.4%) of its members were women, and 40% of the Company's external directors were women. This puts the Company at the cutting edge of the IBEX 35.</p> <p>The commitment of the Board of Directors of Red Eléctrica to strengthening the presence of women is an objective of good corporate governance policies, both on the Board of Directors and in Company Management and the rest of the organization of the main companies of the Red Eléctrica Group. Its pursuit must be ongoing in order to consolidate a responsible corporate management model based, among other aspects, on active management of the principles of equality and non-discrimination.</p> <p>As part of its ongoing commitment to adopt corporate governance best practices, the Board of Directors assumed the obligation of approving an annual report on gender diversity matters at the proposal of the Corporate Responsibility and Governance Committee, and the first edition of the report was approved at the end of 2008.</p> <p>At its meeting held on September 27, 2012, the Board of Directors, as part of its on-going commitment to the adoption of best Corporate Governance practices, approved the Report on Gender Diversity submitted to it by the Corporate Responsibility and Governance Committee. This Report has been republished on the Company's website.</p>



The Company's equality policy was approved by the Board of Directors based on a favourable report from the Corporate Responsibility and Governance Committee in 2011. At a meeting on September 24, 2012, the Corporate Responsibility and Governance Committee approved an Equality Policy Monitoring and Assessment Report for 2011. The Equality Policy shall be subject to continuous monitoring and assessment by the Corporate Responsibility and Governance Committee and the Board of Directors.

In particular, indicate whether the Appointments and Compensation Committee has established procedures so that selection processes do not suffer from implicit bias preventing the selection of female Directors and consciously seek candidates that meet the required profile:

YES X NO

Identify the main procedures

As stated, the measures put in place by the Company are aimed at actively promoting the selection of female Directors and their incorporation onto the Board of Directors, on the terms provided in Recommendation 15 of the Conthe Code and in accordance with Article 16.1 of the Regulations of the Board of Directors.

B.1.28. Indicate whether there are any formal procedures for granting proxies to vote at Board meetings. If so, give brief details.

Each Director may grant a proxy to another Director, in writing and specifically for each meeting, to represent him/her and vote on his/her behalf at the meetings of the Board of Directors. This is provided in Article 21 of the Corporate Bylaws.

Where a Director cannot, with just cause, attend the Board meeting(s) to which he has been called, he must give instructions to the Director that is to represent him, procuring that he is represented by a Director of the same type, as provided in Article 28.2 b) of the Regulations of the Board of Directors.

B.1.29. Indicate the number of Board meetings held during the year. Also indicate, as appropriate, how often the Board met without the Chairman's attendance:

Number of Board meetings	14
Number of Board meetings not attended by the Chairman	0



Indicate how many meetings of the various Board Committees were held during the year:

Number of Executive or Delegated Committee meetings	--
Number of Audit Committee meetings	10
Number of Appointments and Compensation Committee meetings	20
Number of Appointments Committee meetings	--
Number of Compensation Committee meetings	--

B. 1.30. Indicate how many Board meetings held during the year were not attended by all members. Proxies granted with no specific instructions will be treated as absences:

Number of Director absences during the year	18
Absences as a percentage of total number of votes during the year	12.7%

B. 1.31. Indicate whether the individual and consolidated financial statements submitted for approval by the Board are certified beforehand:

YES NO

Indicate, as appropriate, the person(s) who certified the Company's individual and consolidated financial statements for their preparation by the Board:

Name	Position
--	--

B.1.32. Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements prepared by it from being submitted at the Shareholders' Meeting with a qualified auditors' report:

The Regulations of the Board of Directors expressly establish that the Company's Board of Directors will formulate the definitive financial statements, procuring that they do not give rise to any qualifications by the auditor. Nevertheless, where the Board considers that it must maintain its judgement, it will publicly explain the substance and scope of the discrepancy.

In this regard, the Audit Committee plays a particularly important role, as it continuously monitors the process of preparing the economic



and financial information sent to the market supervisory bodies, thereby increasing the likelihood that there will be no qualifications in the annual auditors' reports.

Since the formation of the Company in 1985, it has not been subject to any qualifications in the audits of its financial statements. This demonstrates the utmost accuracy, reliability and sufficiency of the financial statements of the Company and its consolidated Group since its formation, guaranteeing at all times the maximum transparency in its reporting.

B.1.33. Is the Board Secretary a Director?

YES NO

B.1.34. Explain the procedures for appointment and removal of the Board Secretary, indicating whether his/her appointment and removal were reported to the Appointments Committee and approved by the plenary session of the Board.

Procedure for appointment and removal	
As provided in Article 10.4 of the Regulations of the Board of Directors, the Corporate Responsibility and Governance Committee will report on proposals for the appointment and removal of the Board Secretary, prior to their submission to the Board.	
The secretary of the Board of Directors, Rafael García de Diego Barber, an attorney and member of the Illustrious College of Attorneys of Madrid, is not a Company Director and has served as Secretary since May 4, 1995. The Committee could not report on his appointment as it did not exist at that time.	

	YES	NO
Does the Appointments Committee report on the appointment?	X	
Does the Appointments Committee report on removal?	X	
Does the plenary session of the Board approve the appointment?	X	
Does the plenary session of the Board approve the removal?	X	

Is the Board Secretary specifically tasked with monitoring good governance recommendations?

YES NO



Comments

<p>As provided in Article 26 e) of the Bylaws and Article 10.3 b) of the Regulations of the Board of Directors, the duties of the Secretary of the Board of Directors include ensuring compliance by the Board of Directors and its Committees with the Corporate Bylaws, the Regulations of the Shareholders' Meeting, the Regulations of the Board of Directors, and other corporate governance rules at the Company.</p>

<p>In addition, Article 26 f) of the Corporate Bylaws and the corresponding Article 10.3 c) of the Regulations of the Board of Directors provide that the Secretary of the Board of Directors is responsible for <i>“ensuring that the Company's corporate governance rules and the actions of the Board of Directors are in line with the good corporate governance recommendations in force from time to time”</i>.</p>

B.1.35. Indicate the mechanisms, if any, established by the Company to preserve the independence of auditors, financial analysts, investment banks and rating agencies:

The Audit Committee is the body within the Board of Directors that is responsible for the relationship with external auditors. In this regard, the Audit Committee assists the Board of Directors in monitoring the independence of the Company's external auditor.

Pursuant to the power contemplated in Article 23.2 of the Corporate Bylaws, Article 14.3 b) of the Regulations of the Board of Directors, in relation to the independence of external auditors, tasks the Audit Committee with establishing procedures to ensure the independence and professionalism of the external auditors and receiving information regarding matters that might jeopardize their independence and professionalism.

In this regard, the Audit Committee must ensure that the Company (i) discloses any change of auditor to the CNMV as a material event and, if applicable, any disagreements with the outgoing auditor; and (ii) complies with the rules in force regarding the provision of non-audit services, limits on concentration of the auditor's business and, in general, all other rules established to safeguard the independence of the auditor. In the event of resignation of the auditor, the Audit Committee must examine the underlying circumstances.

Moreover, Article 37 of the Regulations of the Board of Directors imposes the duty on the Board to refrain from engaging audit firms whose envisaged fees for all items exceed 10% of their total revenues in the preceding year.



In addition, Article 37 of the Regulations of the Board of Directors imposes the obligation on the Board of Directors to provide yearly information on the overall fees paid by the Company to the audit firm for non-audit services.

At its Annual Shareholders' Meeting on April 19, 2012, the Company adapted its Corporate Bylaws to bring them into line with the aforementioned Law 12/2010, which aims to reinforce the competencies of the Audit Committee to verify the independence of the External Auditor. These adaptations will be incorporated into article 14 of the Regulations of the Board of Directors when they are next updated.

The Company frequently makes all manner of presentations to financial analysts and investment banks to report on the key economic and financial highlights of the Group, and on its business performance.

These presentations are regularly attended by the most prominent industry professionals and experts. After these presentations, all participants are offered the opportunity to be included on a list of entities that periodically receive the most relevant Company information of interest to them.

All presentations to analysts are sent to the Spanish CNMV beforehand so that they may be consulted by the markets on its website. The presentations are also posted immediately on the Company website.

The main purpose of the Investor Relations Department, which reports to the Company's Directorate-General of Administration and Finance, is to act as a channel for communications with financial professionals and institutional investors, and to handle their inquiries.

B.1.36. Indicate whether the Company changed external auditors in the year. If so, identify the new and outgoing auditors:

YES NO

Outgoing auditor	New auditor
--	--

If there were any disagreements with the outgoing auditor, explain the substance thereof:

YES NO

Explanation of disagreements



--

B.1.37. Indicate whether the audit firm performs any non-audit work for the Company and/or its Group, and if so, state the amount of fees received for such work and the percentage they represent of the fees billed to the Company and/or its Group:

YES NO

	Company	Group	Total
<i>Fees for non-audit work (€ thousand)</i>	0	86	86
<i>Fees for non-audit work / Total fees billed by audit firm (as a %)</i>	0%	39%	39%

Work other than audit includes 75 thousand euros (87% of the total) corresponding to work that had been committed to in prior years.

B.1.38. Indicate whether the audit report on the financial statements for the preceding year contains any reservations or qualifications. If so, state the reasons given by the Chairman of the Audit Committee to explain the substance and scope of such reservations or qualifications.

YES NO

Explanation

B.1.39. Indicate the number of consecutive years the current audit firm has audited the financial statements of the Company and/or its Group. Indicate the number of years the current audit firm has audited the Company's financial statements as a percentage of the total number of years during which the Company's financial statements have been audited:

	Company	Group
Number of consecutive years	7	7

	Company	Group
Number of years audited by current audit firm / Number of years the company has been audited (as a %)	25.9%	58.3%



B.1.40. Indicate any holdings, as disclosed to the Company, owned by the members of the Company's Board of Directors in the capital of entities engaging in business of a kind identical, similar or complementary to the business constituting the corporate purpose of the Company or of its Group. Also indicate the offices they hold or the functions they perform at these companies:

Name of Director	Name of company in which shares are held	% Holding	Office or functions
José Folgado Blanco	REN-REDES ENERGÉTICAS NACIONAIS, SGPS	----	Individual representative of the corporate Director Red Eléctrica Corporación, S.A. on the Board of Directors of the Portuguese company REN-REDES ENERGÉTICAS NACIONAIS, SGPS.
Rui Manuel Janes Cartaxo	REN-REDES ENERGÉTICAS NACIONAIS, SGPS	0.0073%	Chairman and CEO of REN-REDES ENERGÉTICAS NACIONAIS, SGPS

B.1.41. Indicate whether there is a procedure to allow Directors to seek external professional advice? If so, give details:

YES NO



Details of the procedure

There is a specific procedure in place at the Company to allow Directors to seek external advice.

In order to receive assistance in exercising their functions, Article 26 of the Regulations of the Board of Directors establishes that External Directors may request that the Board of Directors engage legal, accounting, financial or other expert advisers, at the expense of the Company.

The engagement must refer to specific problems of a certain scale and complexity arising in the discharge of their office.

The engagement request must be addressed to the Chairman. The request may be rejected by the Board of Directors if it transpires or can be inferred that:

- a) it is not necessary for the proper performance of the functions entrusted to the Directors;
- b) the cost thereof is not reasonable in view of the significance of the problem and the assets and revenues of the Company; or
- c) the technical assistance sought may be adequately provided by Company experts or technical personnel, or has been entrusted to other external experts.

Articles 13.5 and 15.7 of the Regulations of the Board of Directors provide that the Audit Committee and the Corporate Responsibility and Governance Committee may propose that the Board of Directors seek independent professional advice.

Furthermore, those Committees may access any type of Company information or documentation necessary for the better performance of their duties, pursuant to the provisions of the aforementioned Articles of the Regulations of the Board of Directors.

B.1.42. Indicate whether there is a procedure to ensure that Directors have the necessary information in order to prepare for meetings of the management bodies sufficiently in advance. If so, give details:

YES NO

Details of the procedure

Board meetings are called at least six (6) days in advance and all relevant information is sent out with the call notice. The call notice always includes the agenda for the meeting and, in general, except where it is not possible, the relevant information, duly summarized and prepared.



Notwithstanding the foregoing, Article 17.3 of the Regulations of the Board of Directors establishes that the call notice for Board meetings will be sent at least three (3) days prior to the date of the meeting. As an exception and for reasons of urgency, the Board may be called by telephone and the advance notice period will not apply where the Chairman deems that the circumstances justify it. The reasons of urgency will be explained in the Minutes of the meeting.

Article 25.1 of the Regulations of the Board of Directors provides that Directors have the broadest rights to be informed of and to inspect any aspect of the Company. In this regard, Directors may, at any time, examine the books, registers, documents and other background information on corporate transactions and may even inspect all Company facilities. The right to information extends to subsidiary companies, both domestic and foreign.

In accordance with Article 25.2 of the Regulations of the Board of Directors and so as not to disturb the ordinary management of the Company, the exercise of the right to information will be channelled through the Chairman of the Board of Directors, who will handle all requests from Directors, providing the information directly to them. The Chairman will also offer the appropriate contact persons at the relevant level within the organization or make arrangements to allow Directors to conduct the desired examination and inspection *in situ*.

Article 25.3 of the Regulations of the Board of Directors provides that the Chairman of the Company may restrict access to certain information on an exceptional and temporary basis, informing the Board of Directors of this decision at its next meeting.

Both the Audit Committee and the Corporate Responsibility and Governance Committee may access any kind of Company information or documentation that they may need for the better performance of their duties, as indicated in section B.1.41 above.

B.1.43. Indicate whether the Company has established rules requiring Directors to report on and, as the case may be, resign in cases that could harm the credit and reputation of the Company. If so, give details:

YES NO

Details of rules

Article 30 of the Regulations of the Board of Directors provides, among the disclosure obligations of Directors, that Directors must inform the Company of all judicial, administrative and other claims that by reason of their significance could harm the credit and reputation of the Company and, in particular, of any criminal proceedings in which they appear as an accused party, and of



subsequent progress in the case.

Furthermore, pursuant to Article 22.2 f) of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and, where the Board deems it appropriate, formally resign where their continued presence on the Board may jeopardize the interests of the Company, as envisaged above, and where the Board deems this to be the case with the affirmative vote of two-thirds of its members.

If a Director is indicted or a decision is rendered to bring him to trial for any of the crimes referred to in Article 213 of the Corporate Enterprises Law, the Board shall review the matter as soon as possible and, in light of the specific circumstances, shall decide, as provided for in the preceding paragraph, whether or not it is appropriate for the Director to remain in office. All of the foregoing will be reported on in the Annual Corporate Governance Report.

B.1.44. Indicate whether any member of the Board of Directors has informed the Company that he has been indicted or that a decision has been rendered to bring him to trial for any of the crimes stated in Article 213 of the Corporate Enterprises Law:

YES

NO

Name of Director	Criminal proceeding	Comments
--	--	--

Indicate whether the Board of Directors has reviewed the case. If yes, give a reasoned explanation of the decision adopted as to whether or not it is appropriate for the Director to remain in office.

YES NO

Decision adopted	Reasoned explanation
--	

B.2. Committees of the Board of Directors



B.2.1. List all of the Committees of the Board of Directors and their members:

EXECUTIVE OR DELEGATED COMMITTEE

Name	Position	Type
--	--	--

AUDIT COMMITTEE

Name	Position	Type
Paloma Sendín de Cáceres	Chairwoman	Independent
Maria Ángeles Amador Millán	Member	Independent
Fernando Fernández Méndez de Andés	Member	Nominee

APPOINTMENTS AND COMPENSATION COMMITTEE

Name	Position	Type
Juan Iranzo Martín	Chairman	Independent
Carmen Gómez de Barreda Tous de Monsalve	Member	Independent
Alfredo Parra García-Moliner	Member	Nominee

APPOINTMENTS COMMITTEE

Name	Position	Type

COMPENSATION COMMITTEE

Name	Position	Type

_____ COMMITTEE



Name	Position	Type

B.2.2. State whether the Audit Committee performs the following functions:

	YES	NO
Supervises the preparation and integrity of the financial information relating to the Company and, as the case may be, the Group, reviewing compliance with legal provisions, the appropriate definition of the consolidated group, and the correct application of accounting principles	X	
Reviews internal control and risk management systems on a regular basis, so that the main risks are adequately identified, managed and disclosed	X	
Ensures the independence and efficacy of the internal audit function; proposes the selection, appointment, reappointment and removal of the head of the internal audit service; proposes the budget for this service; receives regular reports on its activities; and verifies that senior management is acting on the conclusions and recommendations contained in its reports	X	
Establishes and supervises a mechanism to enable staff to report, on a confidential and, if appropriate, anonymous basis, any potentially significant irregularities, particularly financial or accounting irregularities, they may detect at the Company.	X	
Makes recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of its engagement	X	
Receives regular information from the external auditor on the progress and findings of the audit plan, and verifies that senior management is acting on its recommendations	X	
Ensures the independence of the external auditor	X	
In the case of groups, the group auditor should be encouraged to take responsibility for auditing all the companies in the Group.	X	

B.2.3. Describe the rules of organization and functioning, and the responsibilities attributed to each of the Board Committees.



I. AUDIT COMMITTEE

a) Background

At the meeting held on November 18, 2003, the Board of Directors of Red Eléctrica created the Audit Committee to replace the former Audit and Compliance Committee, pursuant to the provisions of Article 23 of the Corporate Bylaws and Chapter V, Articles 15 and 16 of the Regulations of the Board of Directors, approved at that meeting. The foregoing was also consistent with the provisions of Article 47 of Law 44/2002 of November 22, 2002 on Measures to Reform the Financial System.

Specifically, the Audit Committee was created by a resolution adopted by the Board of Directors of Red Eléctrica on November 30, 1999, under the name of the Audit and Compliance Committee. This Committee was created as part of the process to adapt the Company's governance rules to the new situation resulting from the tender offer made by the State-Owned Industrial Holdings Company (SEPI) and from the Company's listing on the stock markets on July 7, 1999.

The Annual Shareholders' Meeting of the Company on May 31, 2007, approved an amendment to the Corporate Bylaws to bring them into line with the Single Text of Corporate Governance Recommendations, known as the Unified Good Governance Code, approved by the CNMV under a Decision dated May 19, 2006.

The Annual Shareholders' Meeting amended Article 23 of the Corporate Bylaws to bring it into line with Recommendation 22 of the Unified Good Governance Code, regarding the composition of the Audit Committee, and changed the name of the Audit Committee from Audit Commission to Audit Committee, more in keeping with commercial practices.

The 2011 Shareholders' Meeting approved an amendment to the Corporate Bylaws and to the Regulations of the Shareholders' Meeting in order to adapt them to the new legal requirements established in Law 12/2010, of June 30, 2010 (basically affecting the composition, structure and functions of the Audit Committee) and Legislative Royal Decree 1/2010, of July 2, 2010, approving the Revised Corporate Enterprises Law (fully repealing the Corporations Law and partially repealing the Securities Market Law).

All of the approved amendments were notified to the CNMV and registered at the Mercantile Registry.

b) Composition



Article 13 of the Regulations of the Board of Directors provides that the Committee will be comprised of a minimum of three (3) and a maximum of five (5) members, as determined by the Board, the majority being External Directors and appointed by the Board of Directors, and reasonably endeavouring to reflect the composition of the Board.

Throughout 2012, the Committee was comprised of External Directors only, with a majority of Independent Directors.

The Audit Committee was fully renovated at the Annual Shareholders' Meeting held on April 19, 2012, which appointed 6 new external directors.

At its meeting on April 26, 2012, the Board of Directors, on the proposal of the Chairman, approved the appointments of Paloma Sendín de Cáceres, María Ángeles Amador Millán and Fernando Fernández Méndez de Andés as members of the Committee for a term of three years. At a meeting held on the same day, the Audit Committee approved the appointment of Paloma Sendín de Cáceres as its chairwoman.

As already mentioned, the Directors on the Committee are particularly qualified to hold their positions, with broad professional experience and having held positions of the highest responsibility outside the RED ELÉCTRICA Group, in functions related to those entrusted to the Committee. A brief description is given below of each member's professional career (further details are provided in Section B.1.3 above):

- Paloma Sendín de Cáceres is a Graduate in Economics and Business Science from the Universidad Autónoma de Madrid. She is a Commercial Technician and State Economist and holds a State Commercial Diploma.

Among other positions, she has been a member and representative of Spain on various EC committees and workgroups, a member of the Organising Committee of the European Union Conference on Stakeholders, a director of the Banco Exterior de España, a director of the Compañía Logística de Hidrocarburos (CLH), a director of the Banco Exterior de España in the UK and Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin. She is currently, among other roles, an Advisory Committee Member of the Fundación para Estudios sobre la Energía.

- María Ángeles Amador Millán holds a Law Degree from the Universidad Complutense de Madrid.



Among other positions, she has been the Technical General Secretary of the Ministry of Public Works and Urban Development, Undersecretary at the Ministry of Health and Consumer Affairs, the Minister for Health and Consumer Affairs and Deputy Chairwoman of the Constitutional Committee of the Lower House of Parliament. She has also been the chairwoman of the Company's Corporate Responsibility and Governance Committee, having joined the Company as a Director in May 2005. She is a practising lawyer and a member of the Advisory Board of Accenture.

- Fernando Fernández Méndez de Andés holds a Doctorate in Economics from the Universidad Autónoma de Madrid. He is a lecturer in Economics and Director of the International Financial System Chair at the IE Business School, specialising in Macroeconomics, the International Economy and Financial Stability.

Among other positions, he has been the Principal Economist at the International Monetary Fund, Chief Economist and Director of Research Service at Banco Central Hispano (BCH) and Banco Santander, a member of the Executive Committee of the Association for European Monetary Union, a member of the Economists Council of Conference Board, Europe, a Member of the Permanent Committee of Head Economists at the Instituto Internacional de Finanzas and the Grupo de Trabajo en Prevención y Resolución de Crisis (Crisis Prevention and Resolution Working Group), during the 1999-2002 Latin American debt crisis, a Member of the Executive Committee of the Instituto de Estudios Económicos and a member of the Technical Group on Financing Emerging Economies at the Ministry of Economics and Commerce. He is currently, among other roles, an international consultant on macroeconomic, regulatory and financial issues with the Fundación de Estudios Financieros and an independent director of Bankia, S.A.

The members of the Committee hold office for a term of not more than three years, may be reappointed indefinitely and stand down on expiration of that term, when they cease to be Directors, or when so resolved by the Board of Directors, in the latter case following a report by the Corporate Responsibility Governance Committee. The Chairman of the Committee is an Independent Director elected by its members and the Committee Secretary is the Secretary of the Board of Directors. The Chairman must be substituted every three years and may be reappointed after one year has elapsed since he left office. Committee members are appointed and removed by the Board of Directors at the proposal of the Board Chairman following a report from the Corporate Responsibility and Governance Committee.



c) Organization and functioning

The Audit Committee meets at least once every quarter and any time it is called by its Chairman or two of its members so request, and whenever the Board or its Chairman requests that it issue a report. The Committee met ten (10) times in 2012.

Article 13.4 of the Regulations of the Board of Directors establishes that meetings may be called, and the associated documentation sent, by telematic means that guarantee due security and confidentiality for the call notice and the related documentation.

The call notice, including the agenda, will be sent by the Committee Chairman or Secretary to each of its members at least three days in advance of the date scheduled for the meeting, unless the meeting needs to be called sooner for reasons of urgency.

Article 13.4 also allows Committee meetings to be held for reasons of urgency and on an exceptional basis by conference call, videoconferencing or any other remote means of communication that enables them to be held, provided that all Committee members can have access thereto.

The Committee may be constituted with the attendance of the majority of its members and will adopt decisions or recommendations by a majority vote, which decisions or recommendations must be recorded in the Minutes at the end of the meeting. Members of the management team or Company personnel who are requested by the Chairman of the Audit Committee will be obliged to attend Committee meetings and must provide assistance and allow access to any information they have in relation to the matters discussed.

In order to better perform its functions, the Committee may propose to the Board of Directors that advice be sought from independent professionals and may access any type of Company information or documentation it may require.

d) Competencies

The basic powers of the Committee are set out in Article 14 of the Regulations of the Board of Directors and can be summarized in six major groups: i) economic and financial information; ii) internal control and risk management systems; iii) external auditors; iv) compliance with legal provisions and internal rules; v) Company shareholders; and vi) other general powers.



The Committee, composed entirely of External Directors, met with the external auditor in 2012, whenever it deemed it appropriate for the better performance of its functions, passing on the questions, clarification and comments it saw fit.

Its remit includes most notably the procedure for fulfilling the functions assigned in relation to the financial statements. Since its creation in 1999, the Audit and Compliance Committee has been responsible for reviewing the Company's financial statements, monitoring compliance with legal requirements and the correct application of generally accepted accounting principles, and reporting on any amendments to the accounting principles and methods proposed by Company Management.

When the Committee became the Audit Committee in November 2003, with the functions and responsibilities established by law and the Bylaws, it also assumed responsibility for approving the accounting principles and methods to be used in preparing the Company's financial statements and those of its consolidated Group, and for verifying their accuracy, reliability and sufficiency.

Also notable is the specific procedure for supervision by the Committee of any financial information sent on a periodic or ad hoc basis to the market supervisory bodies. The Committee is also responsible for ensuring that Company's financial documentation complies with legal accounting standards and, in particular, with any applicable EU recommendations and obligations on bookkeeping by electric utilities.

All of the foregoing leads to more direct control over the preparation of the Company's economic and financial information. Since this control is carried out by a collective body consisting of Directors with the highest professional qualifications in relation to the matters falling under the Committee's jurisdiction (as can be seen from the professional careers of Directors as described above), the accounting principles of reliability, certainty, accuracy and sufficiency are reinforced, as is the transparency of the process for the preparation of corporate economic information.

The Regulations of the Board of Directors approved on January 28, 2010 gave the Audit Committee, among others, the following responsibilities:

- To report previously to the Board of Directors on material transactions or operations for the financing of the companies of the Red Eléctrica Group.
- To report to the Board of Directors on related-party transactions, as defined in the legislation in force from time to time, that are material or fall outside the ordinary course of business of the Company, that must be reported obligatorily



to the securities markets pursuant to the aforementioned legislation, and that require the Board's approval.

II. CORPORATE RESPONSIBILITY AND GOVERNANCE COMMITTEE.

a) Background

Following the listing of Red Eléctrica on the stock exchange in 1999, an Appointments Committee was created within the Board of Directors and began to perform functions as regards the appointment of Directors and senior executives. Following the recommendations of the Aldama Report of November 18, 2003, the Company's Board of Directors converted this Committee into the Appointments and Compensation Committee. The Committee's initial powers regarding appointments were expanded and it assumed new functions in relation to the compensation of the Board of Directors and the management team of the Company and of its Group.

In accordance with corporate governance recommendations and particularly those set out in the Conthe Code, pursuant to the amendments made by the Shareholders' Meeting held on May 31, 2007, the Company's Board of Directors changed the name of the Committee in 2007 to the Appointments, Compensation and Corporate Governance Committee and extended its powers. Particularly noteworthy among the powers expressly attributed to this Committee are those relating to corporate governance.

At the meeting held on January 28, 2010, the Board of Directors amended the Regulations of the Board of Directors by renaming the Appointments, Compensation and Corporate Governance Committee as the Corporate Responsibility and Governance Committee. The change of name of this Committee was accompanied by broad powers granted in the area of corporate responsibility.

b) Structure

Article 24.2 of the Corporate Bylaws and Article 15 and 16 of the Regulations of the Board of Directors govern the structure, composition and functions of the Corporate Responsibility and Governance Committee.

The Committee must consider the suggestions made by the Chairman, the members of the Board, and Company executives or shareholders in matters affecting the appointment of Directors, including Managing or Executive Directors, and compliance with



corporate governance principles, the Corporate Bylaws and the Regulations of the Board of Directors.

The Committee meets as often as is appropriate for the sound performance of its functions. In any event, the Committee must meet at least once every quarter, whenever called by its Chairman or so requested by two of its members, and whenever the Board of Directors or its Chairman requests that a report be issued or proposals be adopted.

As in the case of the Audit Committee, Article 15.5 of the Regulations of the Board of Directors approved on January 28, 2010, provides that meetings may be called, and the associated documentation sent, by telematic means that guarantee due security and confidentiality for the call notice and the related documentation.

The call notice, which must include the agenda, is sent by the Committee Chairman or Secretary to each Committee member at least three days in advance of the date scheduled for the meeting, unless the meeting needs to be held sooner for reasons of urgency.

Also with respect to this Committee, Article 15.5 of the Regulations of the Board of Directors allows Committee meetings to be held for reasons of urgency and on an exceptional basis by conference call, videoconferencing or any other remote means of communication that enables them to be held, provided that all Committee members can have access thereto.

The Committee met twenty (20) times in 2012.

The Committee may be constituted with the attendance of the majority of its members and will adopt decisions or recommendations by a majority vote, which decisions or recommendations must be recorded in the Minutes at the end of the meeting. In order to better perform its functions, the Committee may propose to the Board of Directors that advice be sought from independent professionals and may access any type of Company information or documentation it may require to perform its functions.

Article 15 of the Regulations of the Board of Directors provides that the Corporate Responsibility and Governance Committee will be comprised of a minimum of three and a maximum of five members, as determined by the Board, with a majority of External Directors, and at least half of its members must be Independent Directors. The Chairman of the Committee is an Independent Director elected by its



members and the Committee Secretary is the Secretary of the Board of Directors.

Committee members are appointed and removed by the Board of Directors at the proposal of the Board Chairman following a report from the Corporate Responsibility and Governance Committee. Committee members hold office for a maximum period of three years, may be reappointed and stand down when they cease to be Directors or when so resolved by the Board of Directors, following a report by the Corporate Responsibility and Governance Committee. The Chairman must be substituted every three years and may be reappointed after one year has elapsed since he vacated office, as in the case of the Audit Committee.

c) Composition

Until March 8, 2012, the date of removal of the previous executive chairman, Luis M^a Atienza Serna, the Corporate Responsibility and Governance Committee consisted of four directors, of whom three were external and one executive. Of the external directors, two were independent and one was a nominee. Following the appointment of the new executive chairman, Jose Folgado Blanco, who did not join this Committee, its composition changed. Following the Annual Shareholders' Meeting held on April 19, 2012, when the Board was renewed, the position of the executive director formally disappeared.

At its meeting on April 26, 2012, the Board of Directors, on the proposal of the Chairman, approved changing the number of members of the Corporate Responsibility and Governance Committee from 4 to 3. To this end, it appointed Juan Iranzo Martín, Carmen Gómez de Barreda Tous de Monsalve and Alfredo Parra García-Moliner as Committee members for a term of 3 years. The removal of the chief executive from membership of the Corporate Responsibility and Governance Committee fosters greater independence for the Committee in its decision making, as it is now fully composed of external directors. At a meeting held on the same date, the Corporate Responsibility and Governance Committee approved the appointment of the independent director Juan Iranzo Martín as Chairman of the Committee.

At 2012 year-end and at the date of approval of this Report, the composition of the Committee was as follows:

Director	Position	Type of Director
Juan Iranzo Martín	Chairman	Independent



Carmen Gómez de Barreda Tous de Monsalve	Member	Independent
Alfredo Parra García-Moliner	Member	Nominee

The Chairman of the Committee, who must be an Independent Director, is elected by its members and the Committee Secretary is the Secretary of the Board of Directors, Mr. Rafael García de Diego Barber. Committee members are appointed and removed by the Board of Directors at the proposal of the Board Chairman.

d) Competencies

The basic responsibilities of the Corporate Responsibility and Governance Committee are set out in Article 24 of the Corporate Bylaws and Articles 15 and 16 of the Regulations of the Board of Directors.

Pursuant to the authorization contained in Article 24.2 of the Corporate Bylaws, the Corporate Responsibility and Governance Committee has basic responsibilities concerning appointments and removals, compensation, fulfilment of Director duties, corporate governance rules and other generic functions.

The Regulations of the Board of Directors approved on January 28, 2010 established a specific section on the powers of this Committee in the area of corporate responsibility.

B.2.4. Indicate the advisory and consultative powers and any delegated powers held by each of the Committees:

Name of Committee	Brief description
Audit	<p>The basic responsibilities of this Committee, pursuant to Article 23 of the Corporate Bylaws, are as follows:</p> <ul style="list-style-type: none"> i) to report at Shareholders' Meetings on matters falling within its jurisdiction which are raised in the course of such Meetings; ii) to supervise the efficacy of the Company's internal control, any internal audit, and risk



	<p>management systems, as well as to discuss with the auditors any significant weaknesses of the internal control system detected in the course of the audit;</p> <p>iii) to supervise the process of preparing and filing regulated financial information;</p> <p>iv) to propose to the Board of Directors the appointment of auditors for submission to the Shareholders' Meeting;</p> <p>v) to duly engage with the auditors in order to receive information on any issues that may jeopardize their independence, for their examination by the Committee, and any other issues relating to the audit process, as well as other communications provided for in audit legislation and audit standards. In any case, they must receive each year from the auditors written confirmation of their independence from the Company or from entities related to the Company directly or indirectly, as well as information on additional services of any kind provided to such entities by those auditors or by persons or entities related to those auditors in accordance with the provisions of the legislation in force.</p> <p>(vi) before the auditors' report is issued, to issue a report each year expressing an opinion on the independence of the auditors or audit firms. This report must, in any case, make a pronouncement on the provision of the additional services referred to in the preceding letter.</p> <p>vii) Any other powers attributed to it by the Board, whether generally in the Regulations of the Board of Directors or by specific assignment.</p> <p>The above basic responsibilities are detailed in Article 14 of the Regulations of the Board of Directors, which establishes the following:</p>
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	<p>As regards economic and financial information:</p> <ul style="list-style-type: none">a) To approve the accounting principles and methods to be used in the preparation of the financial statements of the Company and of its consolidated Group, and to verify their accuracy, reliability and sufficiency.b) To supervise the preparation and integrity of the financial information of the Company and, as appropriate, of the Group, ensuring that legislative requirements are taken into account, the consolidated group is adequately defined, and the applicable accounting principles and methods are correctly applied.c) To review and report to the Board in advance on the economic and financial information the Company must disclose and send to the market supervisory bodies. The Committee must ensure that any interim financial statements are prepared using the same accounting methods as the annual financial statements and, where it sees fit, it may ask the external auditor to conduct a limited review.d) To report previously to the Board of Directors on material transactions or operations for the financing of companies in the Red Eléctrica Group. <p>As regards internal control and risk management systems:</p> <ul style="list-style-type: none">a) To approve the Company's internal control procedures in the areas of expenditure and investment, making the appropriate amendments, as the case may be.b) To supervise the internal audit function, which will ensure the sound functioning of the internal reporting and control systems and address requests for information from the Audit Committee in the performance of its functions.c) To ensure the independence and efficacy of the internal audit function; to supervise and control the process for selection, appointment, reappointment and removal of the head of the internal audit function and its action plans; to supervise and
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	<p>control the media and resources assigned to the internal audit function, including its budget; to receive periodic information on its activities; and to verify that senior management of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company is acting on the conclusions and recommendations of its reports.</p> <p>The head of internal audit must present an annual work program to the Committee, directly report on any incidents arising during its implementation and submit an activities report at the end of each year.</p> <p>d) To periodically supervise the internal control and risk management systems, so that the main risks are identified, managed and appropriately disclosed.</p> <p>e) To supervise the procedure established by the Board to enable staff to report any potentially significant irregularities, particularly financial or accounting irregularities, they may detect at the Company.</p> <p>The persons in charge of internal control must inform the Committee when they detect irregularities or breaches that may significantly impact or harm the net worth, earnings or image of the Company or of its Group.</p> <p>As regards the external auditor:</p> <p>a) To propose the appointment of external auditors to the Board of Directors for submission to the Shareholders' Meeting, procuring that it be the same audit firm for all Group companies, and the terms of the audit contract, the scope of the professional mandate and the renewal or termination thereof.</p> <p>b) To establish procedures to ensure the independence and professionalism of the external auditors and to receive information regarding matters that might jeopardize their independence and professionalism. To that end:</p> <p>i) It will ensure that any change of auditor and, if applicable, any disagreements with</p>
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	<p>the outgoing auditor are disclosed by the Company to the CNMV as material events.</p> <p>ii) It will ensure that the Company, within the scope of its responsibilities, complies with the rules in force regarding the provision of non-audit services, limits on concentration of the auditor's business and, in general, all other rules established to safeguard the independence of the auditor.</p> <p>iii) iii) The Committee will investigate the circumstances giving rise to the resignation of any external auditor.</p> <p>c) To receive any relevant information relating to the Audit Plan, the process and results of its implementation, as well as any other information provided for in the accounting standards.</p> <p>d) To act as a communication channel between the Board and the external auditor; to evaluate the results of each audit and verify that senior management of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company acts on its recommendations, mediating in the event of discrepancies between the former and the latter in relation to the principles and methods applicable in the preparation of the financial statements.</p> <p>e) To supervise compliance with the audit contract, seeking to ensure that the principal contents of the audit report are drafted clearly and precisely.</p> <p>f) To be informed of the material situations detected by the external auditor, in the same way as information from the internal control systems is received, which may adversely affect the net worth, earnings, or image of the Group.</p> <p>g) To periodically request from the external auditors, and at least once a year, an evaluation of the quality of the Group's internal control procedures.</p>
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	<p>As regards compliance with legal provisions and internal regulations:</p> <ul style="list-style-type: none">a) To supervise compliance with the Internal Code of Conduct on the Securities Market and with the functions of the Oversight Body provided in the Code, reporting periodically to the Corporate Responsibility and Governance Committee on the degree of compliance with the Code and on any incidents that occur.b) To resolve doubts and conflicts raised by parties affected by the Internal Code of Conduct on the Securities Market and submitted to the Committee by the Oversight Body over compliance with the Code.c) To annually evaluate compliance with the rules of the Internal Code of Conduct on the Securities Market and, as the case may be, adopt the appropriate measures for its optimum implementation and improvement; in this connection, the Committee is also responsible for submitting to the Corporate Responsibility and Governance Committee for referral to the Board of Directors any proposed amendments to the Code it may consider necessary.d) To review compliance with the actions and measures resulting from reports or inspections by the supervisory and control authorities of the securities market. <p>As regards the Company's shareholders:</p> <ul style="list-style-type: none">a) To understand and, as appropriate, respond to the initiatives, suggestions or complaints that may be made by shareholders in respect of the scope of the Committee's functions.b) To report, as appropriate, to the Shareholders' Meeting on issues raised at the meeting by shareholders in relation to matters falling within its jurisdiction.
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	<p>Other:</p> <ul style="list-style-type: none"> a) To keep the Board of Directors duly informed of its activities and to prepare an annual report to be included in the Annual Corporate Governance Report and an Action Plan for each year. b) To report to the Board on extraordinary investment transactions when so requested by the Board and, in all cases, on transactions for the creation or acquisition of holdings in special-purpose vehicles or entities domiciled in countries or territories that are considered tax havens, as well as any transactions and operations that could impair the transparency of the Group. c) To report to the Board in advance on related-party transactions requiring authorization from the Board of Directors, as provided in Article 5.6 c) of the Regulations. <p>To also report to the Board on other related-party transactions not requiring Board authorization but which the Committee considers the Board should be made aware of.</p> <ul style="list-style-type: none"> d) To propose and report on any other matter related to the foregoing that may be requested by the Chairman or by the Board of Directors. e) Any other powers attributed to it by the Board.
<p>Corporate Responsibility and Governance</p>	<p>The basic responsibilities of this Committee, pursuant to Article 24 of the Corporate Bylaws, are as follows:</p> <ul style="list-style-type: none"> a) To report on (and, in the case of Independent Directors, make) any proposals to be submitted by the Board of Directors to the Shareholders' Meeting for the appointment or removal of Directors, including in cases of co-optation. b) To propose the compensation policy for Directors and senior executives to the Board of Directors and ensure its observance.



	<p>c) to assume such reporting, supervising and proposing functions in the area of corporate governance as may be determined by the Board of Directors, as long as no ad hoc Committee has been set up for those functions.</p> <p>The above basic responsibilities are detailed in Article 16 of the Regulations of the Board of Directors, which establishes the following:</p> <p>In relation to appointments and removals:</p> <p>a) To report in advance on (and, in the case of Independent Directors, make) any proposals to be submitted by the Board of Directors to the Shareholders' Meeting for the appointment or removal of Directors, including in cases of co-optation.</p> <p>b) To report, prior to their submission to the Board of Directors, on proposals for the appointment or removal of the Secretary and the Deputy Secretary of the Board of Directors.</p> <p>c) To propose the system for selecting Independent Directors to the Board of Directors.</p> <p>d) To ensure that the candidates for filling a vacant directorship meet all of the requirements imposed in the legal provisions and in these Regulations.</p> <p>e) To evaluate the skills, knowledge and experience required on the Board and consequently define the functions and skills required of the candidates for each vacancy.</p> <p>f) To evaluate the time and dedication necessary for Directors to be able to perform their duties with due quality and efficiency, evaluating for these purposes whether their position as a Director is compatible with membership on other management bodies of companies.</p>
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	<p>g) To report on such appointments and removals of senior executives of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company as the Chairman may propose to the Board of Directors.</p> <p>h) To examine or organize, in the manner deemed appropriate, the process for succession of the Chairman and, as appropriate, to make proposals to the Board so the handover takes place in a planned and orderly fashion.</p> <p>i) To ensure that gender diversity is taken into account when filling vacancies.</p> <p>j) To consult with the Chairman, particularly when dealing with matters relating to Executive Directors.</p> <p>In relation to compensation:</p> <p>a) To propose to the Board:</p> <ul style="list-style-type: none">➤ the compensation policy for the Directors and senior executives of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company;➤ the individual compensation and other contractual conditions of Executive Directors;➤ the basic terms and conditions of the contracts of senior executives of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company. <p>b) To consult with the Chairman of the Company, particularly when dealing with matters relating to executive directors and senior executives of the Company and of Red Eléctrica de España, S.A. Sole-Shareholder Company.</p> <p>c) To ensure compliance with the compensation policy established by the Company.</p>
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	<p>In relation to fulfilment of Director duties:</p> <ul style="list-style-type: none">a) To ensure the fulfilment by the Directors of the obligations established in these Regulations, to report to the Board on their fulfilment, and to issue the relevant reports and proposals and, as applicable, on the measures to be adopted in the event of breach.b) To authorize Directors to use corporate assets. <p>In relation to the corporate governance rules:</p> <ul style="list-style-type: none">a) To supervise compliance with the corporate governance rules, making proposals for improvement to the Board of Directors, and to receive information in this respect and, as appropriate, issue an annual report on the measures to be implemented and submit it to the Board.b) To refer to the Board of Directors the proposals of the Audit Committee on the amendment of the Internal Code of Conduct on the Securities Markets. <p>In relation to the corporate responsibility policy (<i>section introduced in the January 2010 reform of the Regulations of the Board of Directors</i>):</p> <ul style="list-style-type: none">a) To propose and promote the Company's policy on corporate responsibility.b) To report on and supervise corporate responsibility initiatives and proposals made or decided on by the organizational units responsible, and, as appropriate, refer the relevant report or proposal to the Board of Directors.c) To report annually on corporate responsibility policy. <p>Other functions:</p> <ul style="list-style-type: none">a) To keep the Board informed of its activities and to prepare an annual report to be included in the
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	<p>Annual Corporate Governance Report and an Action Plan for each year.</p> <p>b) To propose and report on any other matter related to the foregoing that may be requested by the Chairman or by the Board of Directors.</p> <p>c) To report to the Board on the performance of their duties by the Chairman and the plenary session of the Board.</p> <p>d) To verify the type of each Director for the purposes of the pertinent explanations by the Board to the Shareholders' Meeting that is to make or ratify the Director's appointment, and for the recording of the appointment in the Annual Corporate Governance Report.</p> <p>e) Any other powers attributed to it by the Board.</p>

B.2.5. Indicate, as appropriate, whether there are any regulations for the Board Committees, where they can be consulted, and whether any amendments have been made during the year. Also indicate whether any annual report on the activities of each Committee has been prepared voluntarily.

There are no specific internal regulations for the Committees, the preference having been for comprehensive regulation in the Regulations of the Board of Directors.

The Regulations may be consulted on the Company website, www.ree.es, in the Corporate Governance area of the Shareholders and Investors section, without prejudice to the fact they are registered at the CNMV and the Madrid Mercantile Registry and are therefore generally available to investors.

Both Board Committees prepare an annual report on their activities; these are included in full in the Annual Corporate Governance Report. These reports are published on the Company's website.

During 2011 and 2012, the Corporate Responsibility and Governance Committee carried out an in-depth review of the Regulations of the



Board of Directors in order to adapt them to the legislative amendments approved in 2010 and 2011, following approval by the Annual Shareholders' Meetings held on April 13, 2011 and April 19, 2012 of amendment to the Corporate Bylaws and to the Regulations of the Shareholders' Meeting in order to adapt them to the many new legal requirements described above. In May 2012, the Company began a more wide-ranging review of the Regulations of the Board of Directors to incorporate best international corporate governance practices. This review is still on-going.

B.2.6. Indicate whether the composition of the Executive Committee reflects the participation of the various Directors on the Board according to their status:

YES NO

If no, explain the composition of the Executive Committee
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Not applicable as there is no Executive Committee.
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C RELATED-PARTY TRANSACTIONS

C.1. State whether the plenary session of the Board has reserved approval, subject to a favourable report by the Audit Committee or any other Committee to which that function has been delegated, of any transactions performed by the Company with Directors, significant shareholders or shareholders represented on the Board, or persons related to them:

YES X NO

C.2. Give details of material transactions entailing a transfer of funds or obligations between the Company or entities of its Group and the significant shareholders of the Company:

Name of significant shareholder	Name of Group company	Nature of the relationship	Type of transaction	Amount (€ Thousand)
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C.3. Give details of material transactions entailing a transfer of funds or obligations between the Company or entities of its Group and the Company's Directors or executives:

Name of	Name of Group	Nature of	Type of	Amount
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Director or executive	company	the relationship	transaction	(€ Thousand)
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There are no material transactions with Company Directors or executives.

At December 31, 2012, there were no loans, advances or guarantees established by the Company in favour of members of the Board of Directors of the Company. There were also no pension liabilities incurred vis-à-vis the members of the Company's Board of Directors at that date.

- C.4. Give details of material transactions by the Company with other companies of the same Group, where such transactions are not eliminated in the process of preparing the consolidated financial statements and do not fall within the course of the Company's business, as regards their subject matter or terms and conditions:**

Name of Group company	Brief description of the transaction	Amount (€ Thousand)
Red Eléctrica del Sur (REDESUR)	Transactions of no material significance, carried out in the ordinary course of the business between enterprises, which are included merely for informational purposes.	1.396

- C.5. Indicate whether any members of the Board of Directors were subject to any conflict of interest during the year, as provided for in Article 229 of the Corporate Enterprises Law.**

YES NO

Name of Director	Description of conflict of interest
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- C.6. Give details of the mechanisms in place for detecting, identifying and resolving any potential conflicts of interest between the Company and/or its Group and its Directors, executives or significant shareholders.**

In relation to the Directors, Article 29.3 a) of the Regulations of the Board of Directors establishes that Directors must notify the Board of Directors, through the Chairman or the Secretary, of any conflict of interest to which



they are subject and refrain from attending and participating in deliberations affecting matters in which they have a direct or indirect personal interest or in which there is any sign of a conflict of interest. Pursuant to that Article, a personal interest will also be considered to exist when the matter affects a person related to the Director or to a company with which he has an employment or professional relationship or at which he has an executive position or a significant shareholding.

For the purposes of the preceding paragraph, 'related persons' are those defined as such from time to time in the applicable legislation.

In accordance with the provisions of Article 29.3 b) of the Regulations of the Board of Directors, Nominee Directors must disclose to the Board of Directors any conflict of interest between the Company and the shareholder that proposed their appointment where said conflict affects matters submitted to the Board and they must refrain from participating in the adoption of the corresponding resolutions.

In addition, Article 2 of the Code of Conduct on the Securities Market includes within its scope of application Directors, the Secretary and Deputy Secretary of the Company's Board of Directors, executives (as defined in Chapter I of the Regulations of the Board of Directors) and the persons expressly designated by the Oversight Body created pursuant to the Code.

Under Article 7 of the Internal Code of Conduct on the Securities Market, persons subject or temporarily subject thereto must generally attempt to avoid situations of direct conflict of interest or conflicts concerning persons related to them and must inform the Oversight Body of any situations of conflict of interest that may reasonably arise within fifteen (15) days of such situations coming to their attention, so that the Oversight Body may adopt the corresponding decisions in advance. Directors must give notice of the situations described in the preceding paragraph through the Office of the Secretary of the Board of Directors.

Persons subject or temporarily subject to the Code must keep up to date the information regarding conflicts of interest they have disclosed, reporting any such changes as may occur. Without prejudice to the obligations specified in the preceding paragraph as regards conflicts of interest, Directors must comply with the requirements contained in the Corporate Bylaws and in the Regulations of the Board of Directors and, in general, with all requirements arising from the corporate/commercial legislation on corporations.

The Oversight Body will keep an up-to-date itemized Register of the conflicts of interest disclosed by the various persons subject or temporarily subject to the Code, and will adopt the appropriate security measures for its safekeeping and storage. In any event, access to the Register will be restricted.



It should be noted that for the above purposes, in accordance with Article 11 of the Internal Code of Conduct on the Securities Market, the Oversight Body is the Directorate-General of Administration and Finance, which will act in collaboration with the Secretary of the Board of Directors as regards any legal issues resulting from the application or interpretation of the Code. In addition, the Oversight Body has been entrusted with the general functions of ascertaining, registering, disseminating and monitoring compliance with the obligations and duties established in the Internal Code of Conduct. The Oversight Body will have all necessary powers to perform the duties entrusted to it in the Internal Code of Conduct and must periodically report to the Audit Committee on the degree of compliance with the Code and on any incidents that may occur.

The Audit Committee is responsible for supervising compliance with the Internal Code of Conduct and the performance of the functions of the Oversight Body, the person responsible for the material transaction and the Office of the Secretary of the Board of Directors contemplated therein, as well as the internal resolution of any such questions and conflicts raised by parties subject or temporarily subject to the Code as may be submitted to the Committee by the Oversight Body. The Audit Committee will evaluate compliance with the Internal Code of Conduct on an annual basis and will adopt any appropriate measures for its optimum implementation and improvement. It is also responsible for proposing to the Corporate Responsibility and Governance Committee, for referral to the Board of Directors, any amendments it deems necessary in light of the Board's commitment to continuous adaptation, as well as the adoption of corporate governance best practices in the area and of the applicable legislation

In relation to Company executives, Article 2.1.3 of the Internal Code of Conduct on the Securities Market establishes that Company executives, as defined in Chapter 1, are deemed to be subject to the Code and, accordingly, will be subject to potential conflicts of interest. Article 5.2.2 of the Internal Code provides that, when circumstances so require, the Oversight Body may decide to include as persons subject to the Code, on a temporary basis, any persons participating in a material transaction that have access to inside information. The parties affected will be given individual written notice of their inclusion on or exclusion from those lists.

In accordance with the provisions of Article 31 of the Regulations of the Board of Directors, the Board of Directors formally reserves the right to be informed of any material transaction of the Company with a significant shareholder, unless as a result of its nature and conditions it falls within the jurisdiction of the Shareholders' Meeting.

In 2010, at the proposal of the Audit Committee, the Board of Directors approved a policy on controlling related-party transactions and defined objective parameters for controlling related-party transactions, material or otherwise, recurring annual related-party transactions, and related-party transactions requiring mandatory notification to the markets.



C.7. Is more than one Group company listed in Spain?

YES NO

List the subsidiaries listed in Spain:

Listed subsidiaries
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Indicate whether the areas of activity they engage in and any business dealings between them, and between the listed subsidiary and other Group companies, have been publicly and precisely defined:

YES NO

Define any business dealings between the parent company and the listed subsidiary, and between the listed subsidiary and other Group companies
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Identify the mechanisms envisaged for the resolution of potential conflicts of interest between the listed subsidiary and other Group companies:

Mechanisms for the resolution of any conflicts of interest
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D RISK CONTROL SYSTEMS

D.1. General description of the risk policy of the Company and/or its Group, giving details and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

The purpose of the Risk Policy of the Red Eléctrica Group, approved by the Board of Directors on July 24, 2008, is to establish principles and guidelines to ensure the systematic identification, analysis, assessment, management and control of material risks that may affect the Red Eléctrica Group's objectives and activities, applying uniform criteria, within the established risk limits.

Material risks of the Red Eléctrica Group are those that may significantly affect the overall objectives of the Red Eléctrica Group, related to:

- Sustained creation of value over time.



Sustained profit growth, which must allow appropriate returns for investors and enable the company to implement its strategy.

- The continuity and quality of the energy supply in the electricity systems.
The achievement of this objective involves the management by the Spanish System Operator and is dependent on the reliability and availability of the transmission network.
- The construction of the electricity transmission infrastructure network necessary to meet future needs.
Red Eléctrica de España, as the sole transmission company of the Spanish electricity system, must design, fulfil the formalities for and construct the facilities specified by energy planning. This overall objective must be achieved on a cost-effective basis.
- The compatibility of the above objectives with social and environmental concerns.

This Policy establishes criteria on the acceptable level of risk for each of the overall objectives, which may be summarized as follows: all material risks that could jeopardize achievement of the overall objectives must have a low probability/impact value, to the extent that these risks can be managed. Steps must be taken to ensure that any risks that do not meet this value are lowered to such level.

The general guidelines contained in the Risk Policy are as follows:

- Risk management must be fundamentally proactive and also geared towards the medium and long term, taking into account possible scenarios in an ever more globalized environment.
- In general, risks must be managed according to the relationship between the importance of the risk (probability/impact) and the investment and resources necessary to reduce it.
- Notwithstanding the above, the impact the risks may have on the electricity system itself must also be taken into account with respect to activities relating to the electricity system.
- Processes must be designed with efficiency and efficacy in mind and contemplate controls to mitigate risks, taking the form of systems based on international standards (good practices) that are periodically verified and improved.
- Contingency plans must be established to reduce the impact of material risks.



- The insurance necessary to cover any losses that may occur must be arranged.

The most significant risks to which the Group is exposed, and which form part of the risk control system, are:

- a) Regulatory, since the principal business activities of the Group are subject to regulation,
- b) Operational, basically arising from its assigned activities within the electricity system and the requirement to care for and protect the natural environment,
- c) Market, since most revenues, as well as certain expenses, may be influenced by variables such as inflation and interest rates, and
- d) Business and Credit (or counterparty), albeit to a lesser extent due to the lesser weight of the subsidiaries in the overall Group and the existing regulation regarding invoicing and collection for transmission and operation activities.

The risk control system covers both risks from internal processes and risks from the environment in which it operates, covering all activities performed by the Group, evaluating the impact of each risk on four aspects: strategy, the income statement, the electricity system and reputation.

Of all risks monitored by the system, 9% relate to regulatory risks, 80% to operational risks and 11% to business, market or credit risks. These figures are consistent with a Group whose fundamental mission is to ensure the functioning of the electricity system as a whole in a heavily regulated environment and with the level of solvency supported by the ratings given to it by international rating agencies.

An independent review of the design of the risk control system was carried out in 2011 by specialist consultant Ernst & Young, based on the ISO 31000 Standard (Risk Management. Principles and Guidelines). The conclusion issued by the firm on January 14, 2012, is as follows:

“As a result of our review, we can conclude that the design of the Risk Management System of Red Eléctrica Corporación applicable to its different activities is in line with the principles established in the ISO 31000 Standard on *Principles and Guidelines*.”

Furthermore, it should be noted that in 2007 Red Eléctrica embarked on a project to align, review and improve its System for Internal Control over Financial Reporting (ICFR), with the basic aim of improving the efficiency and security of processes for preparing economic and financial information on the Company, adopting international best practices early on, on a voluntary basis. The ICFR is detailed in one of the sections of Annex II to this



Annual Corporate Governance Report; the aforementioned Annex includes additional information to the current Annual Corporate Governance Report in accordance with Article 61 bis of Securities Market Law 24/1998, of July 29, 1988, as amended by Sustainable Economy Law 2/2011, of March 4, 2011.

D.2. Indicate whether any of the various kinds of risk (operating, technological, financial, legal, reputational, tax, etc.) to which the Company and/or its Group are exposed arose during the year:

YES

NO

If yes, describe the underlying circumstances and whether the established control systems functioned:

Risk materializing during the year	Underlying circumstances	Functioning of the control systems
The transmission network facilities are constantly exposed to operating events that may affect the continuity and security of the electricity supply.	In general, these events were caused by third parties and meteorological phenomena.	The control systems functioned adequately, as shown by the transmission network availability index, which reached 97.78% in 2012 (provisional), compared to 97.72% in 2011 (definitive). The Company has insurance policies that limit the potential impact of these events on the income statement.
Nationalisation of the Red Eléctrica subsidiary in Bolivia (TDE).	Decision by the Bolivian government.	The control systems detected this risk, which was classified as "high" prior to the nationalisation. The compensation due is still to be determined.

D.3. Indicate whether any Committee or other governing body is responsible for establishing and supervising those control mechanisms.

YES

NO

If yes, give details of their functions.

Name of Committee or body	Description of functions



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As expressly recognized in the Board regulations, the **Board of Directors** is responsible for approval of the integral risk management policy of the Company and of the Group, and knowledge and periodic monitoring of internal control, prevention and reporting systems.

The Board reviews the risk control system and material risks twice a year, notwithstanding the information it receives on a regular basis from the Audit Committee as part of the ongoing monitoring process carried out by the Committee.

The **Audit Committee** is responsible for the periodic supervision of the risk management system, to ensure that the main risks are adequately identified, managed and disclosed.

The **Management Committee**, comprised of executives from the key strategic areas of the Company, is responsible for:

- Promoting implementation of the integral risk management policy.
- Monitoring the Risk Map, and agreeing on the appropriate actions to facilitate the achievement of the global objectives.

The risk control function is centralised in the **Global Risk Control And Regulation Department**, which reports to the Office of the Chairman.

D.4. Identification and description of the procedures for compliance with the various regulations affecting the Company and/or its Group.

Processes

The RED ELÉCTRICA Group constantly designs and implements processes to ensure its compliance with the various regulations and to mitigate or reduce the related risks.

These processes have been integrated into systems structured according to a set of internal standards and procedures based on international standards (ISO 9001, ISO 14001 and OHSAS 18001), which are subject to systematic audits of the adequacy of their design and compliance, and include mechanisms for controlling the objectives that they must meet.



Projects

All proposals for significant projects from an economic or strategic point of view include the corresponding risk analysis, allowing risks to be evaluated when the related decisions are to be made. These decisions are made by the competent corporate body according to the established limits, with the most important projects requiring the approval of the Board of Directors.

Verification

The design and adaptation to existing regulations of, and correct compliance with, the internal rules and procedures is systematically reviewed by the Internal Audit and Risk Management functions, which form an integral part of the Global Risk Regulation and Control Department, and these procedures are also supervised by the Audit Committee.

Internal rules and their compliance are also subject to external audits on a periodic basis by international ISO and OHSAS standards certification bodies.

Self-evaluation of legal compliance

An internal rule was updated and implemented in 2012 which obliges all units of the organization to establish mechanisms for the identification, dissemination, access and updating of the legislation applicable to them, and to carry out a yearly self-evaluation of their compliance.

E SHAREHOLDERS' MEETING

E.1. Indicate and, as appropriate, give details of any differences between the minimum quorum requirements provided for in the Corporate Enterprises Law (LSC) and the quorum required for the Shareholders' Meeting.

YES NO

	Percentage quorum other than as provided in Art. 193 LSC for general matters	Percentage quorum other than as provided in Art. 194 LSC for special matters
Quorum required on	--	--



first call		
Quorum required on second call	--	--

E.2. Indicate and, as appropriate, give details of any differences between the regime provided for in the Corporate Enterprises Law (LSC) and the regime for adopting corporate resolutions:

YES NO

Describe how it differs from the regime provided for in the LSC)

	Qualified majority other than as provided in Art. 194.1 and 2 LSC	Other instances of qualified majority
Percentage established by the Company for adoption of resolutions	--	--
Describe the differences		
--		

E.3. List any shareholder rights in connection with Shareholders' Meetings that differ from those established in the Corporate Enterprises Law (LSC).

Shareholder rights in relation to Shareholders' Meetings are regulated in Article 15 of the Corporate Bylaws, which expressly refer to the right to information and the right to attend Meetings, and in Articles 6 to 10 of the Regulations of the Shareholders' Meeting.

In accordance with the corporate legislation currently in force, Article 6 of the Regulations of the Shareholders' Meeting sets out the rights of shareholders, introducing, over and above the provisions of the LSC, a new right to participate in company matters on the terms established in Article 7 of the Regulations of the Shareholders' Meeting.

Right to Information

The Company pays special attention to the right to information, as reflected in Article 15 of the Corporate Bylaws and Article 8 of the Regulations of the Shareholders' Meeting. Article 8 of the Regulations of the Shareholders' Meeting establishes the obligation to make documentation and information relating to the meeting agenda available to shareholders, free of charge, both at the Shareholder's Office and on the Company website.



In addition, during the meeting, shareholders can orally request any reports or clarification they deem appropriate regarding the items on the agenda. If such requests cannot be satisfied at the time, the Board of Directors must provide the information in writing within seven days of the meeting.

An open, free-flowing and accessible dialog is maintained with shareholders. Communications are made with the utmost transparency, providing all available information to shareholders at the same time as it is received by other participants in the securities and financial markets.

A specific Shareholder Information Office is in place to deal with any inquiries from minority shareholders.

The Company undertakes to make documentation and information relating to the meeting agenda available to shareholders, free of charge, both at the Shareholder Information Office and on the Company website, including the following documentation:

- The call notice of the Shareholders' Meeting, containing the proposed resolutions and the corresponding reports by the Board of Directors.
- The Company's individual and consolidated financial statements and the proposed distribution of income for the year.
- The Company's individual and consolidated management reports for the year.
- The audit reports relating to the Company's individual and consolidated financial statements.
- The Annual Corporate Governance Report.
- The Corporate Responsibility Report.
- The report on the compensation policy for the Board of Directors, included in the annual public documentation submitted to the Annual Shareholders' Meeting.
- The environmental report.
- Any other report the inclusion of which is obligatory or is determined by the Board of Directors.

Right to attend

Article 15 of the Corporate Bylaws and Article 9 of the Regulations of the Shareholders' Meeting establish that shareholders may attend the Shareholders' Meeting if they are up to date in the payment of capital calls and evidence their share ownership, by way of certification in their name, in the



accounting register of book entries five days before the meeting is due to be held.

To this effect, Article 15 of the Corporate Bylaws and Article 10 of the Regulations of the Shareholders' Meeting provide that shareholders with the right to attend may be represented at the Shareholders' Meeting by any other person, in the manner established in the Corporate Enterprises Law. The condition that the proxy must be a Company shareholder has been withdrawn, following approval of adopting the content of Law 25/2011 at the Annual Shareholders' Meeting held on April 19, 2012.

There is no bylaw restriction requiring a minimum number of shares to attend the Shareholders' Meeting (application of the one share, one vote principle).

Company Directors and Executives are required to attend Shareholders' Meetings.

As a general rule and in order for the proceedings of meetings and the resolutions adopted to reach the widest audience, the media are allowed access to Shareholders' Meetings and Meetings are broadcast in an audiovisual format, with simultaneous translation into English.

Royal Decree-Law 13/2012, of March 30, incorporated a number of Directives into Spanish law. One of these was Directive 2009/72 of July 13, 2009, which proclaims the mandatory independence of transmission companies and operators of European electricity systems. This endorsed the legal limits on holdings and voting rights applicable to the Company's shareholders, including some further restrictions on companies involved in generating and resale. Royal Decree-Law 13/2012, of March 30, modified Additional Provision Twenty Three of the Electricity Industry Law and article 34.1 of Law 54/1997, of November 27, on the Electricity Industry.

The shareholding limits established in the new draft of Additional Provision Twenty Three of Law 54/1997, of November 27, on the Electricity Industry, continue to be basically the same as previously established, with some added limitations for generators and resellers:

- 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 capital and they do not exercise more than 3% of voting rights. These shares may not be pooled for any purpose whatsoever.
- Parties that engage in activities in the electricity industry, and those individuals or legal entities that directly or indirectly hold more than 5% of their capital, may not exercise more than 1% of voting rights, without prejudice to the limitations established in article 34.2 of the Electricity Industry Law for generators and resellers.
- The special regime for Sociedad Estatal de Participaciones Industriales (SEPI) is maintained, whereby it must hold at least ten percent (10%) of capital in all cases.



These legal provisions on the general and special shareholding regime are incorporated in articles 5 and 14 and the Sole Additional Provision of the Corporate Bylaws, and in article 6.3 of the Regulations of the Shareholders' Meeting. It is expected that these will be modified at the next Annual Shareholder's Meeting to adapt them to the new provisions of the aforementioned Additional Provision Twenty Three.

Law 1/2012, of June 22, 2012, simplifying the information and documentation for mergers and spin offs of corporate enterprises, redrafts certain aspects of the Corporate Enterprises Law, affecting, among others, regulation of certain aspects relating to the possibility of introducing bylaw restrictions on voting rights, after these were expressly prohibited for listed companies by Law 12/2010, of June 30 (article 527 LSC). This does not affect the Company, as it sets out a general regime for listed companies, whereas the Company is subject to the limitations set out in the aforementioned Law 54/1997, of November 27, on the Electricity Industry.

Right to Participate and New Technologies

The Regulations of the Shareholders' Meeting allow shareholders to participate to the fullest extent in matters of interest to them (right to attend, meeting calls, inclusion of items and proposals on the agenda, inquiries and requests for information and voting).

In line with the most well-known recommendations in this area, the Regulations of the Shareholders' Meeting are in line with the regime established by Law 26/2003 of July 17, 2003 regarding the development of shareholder rights and the rules regarding the organization and functioning of the Shareholders' Meeting. and the current Corporate Enterprises Law, following the reforms introduced by Law 25/2011, of 1 August. This Law introduced a number of adjustments and provisions aimed at reinforcing the shareholders' right to participate in the Shareholders' Meeting. This led to the Regulations of the Shareholders' Meeting and the Corporate Bylaws being adapted to conform to the Law at the Annual Shareholders' Meeting held on April 19, 2012.

The Regulations of the Shareholders' Meeting provide that shareholders owning 5% of capital may request that the Board, prior to issuing the call, include any item on the agenda for the next Shareholders' Meeting. The Board of Directors must include the items requested in the manner that best suits the Company's interests, provided that they refer to matters falling within the scope of the powers of the Shareholders' Meeting.

Shareholders may also make proposals regarding items on the agenda and suggestions regarding any activities and interests of the Company that, in their opinion, should be discussed at the Shareholders' Meeting. In both cases, shareholders may make proposals and suggestions through the Shareholder Information Office.



Red Eléctrica introduced an electronic voting system in 2005. It was one of the pioneers of this system, which allows shareholders to exercise their voting rights electronically via the Company website, www.ree.es. Since then, the Company has allowed shareholders to exercise their voting rights electronically at all Shareholders' Meetings.

Following the ongoing policy of providing shareholders with advanced telematic means of exercising their rights, the Board meeting held on March 12, 2012 approved the rules regarding voting and proxies by remote means and the exercise of the right to information by electronic means for the Annual Shareholders' Meeting held on April 19, 2012. This procedure was once again satisfactory, with 440 shareholders holding 135,634 shares voting and/or delegating their vote electronically. This meant that 10.5% of the 4,180 shareholders present in person or by proxy at the Meeting participated in the Meeting by electronic means.

In addition, presentations to analysts and the Shareholders' Meeting are broadcast in real time on the Company website. Webcasts of presentations are available on the Company website. Since 2007, the Shareholders' Meeting has been broadcast via live video webcast, with simultaneous translation into English.

In 2011, the Company launched its Shareholders' Electronic Forum. The purpose of this is to facilitate communication among the shareholders of Red Eléctrica with a view to publishing proposals to supplement the agenda contained in the call notice, issuing requests for adhesion to such proposals, presenting initiatives in order to reach the percentage to exercise the minority right envisaged in the law or making offers or requests for voluntary representation.

This tool was incorporated into Article 8.4 of the Regulations of the Shareholders' Meeting, following its approval by the Shareholders' Meeting held on April 13, 2011. This meets the legislative requirements envisaged in Article 539 of the Corporate Enterprises Law.

The Shareholders' Electronic Forum was made available to shareholders in 2012, once its operating terms and conditions had been approved by the Board of Directors at its meeting on March 12, 2012; however, this has not yet been used in practice.

The Company also used certain social networking sites (Facebook and Twitter) in 2012 to publicize and provide information on the Annual Shareholders' Meeting.

As already mentioned, Law 25/2011, of August 1, establishes a duty on listed companies to provide a website that must be approved at the Shareholders' General Meeting. The Annual Shareholders' Meeting held on April 19, 2012



ratified the creation of the corporate website "www.ree.es", which has been registered with the Mercantile Registry.

Law 1/2012, of June 22, 2012, simplifying the information and documentation for mergers and spin offs of corporate enterprises and redrafting certain aspects of the Corporate Enterprises Law, fundamentally regulates certain aspects of the websites of listed companies (articles 11 bis, 11 ter and 11 fourth). This channel has now established itself as an official source and main form of communication for listed companies with their shareholders.

E.4. Indicate, as appropriate, the measures adopted to encourage participation by shareholders at Shareholders' Meetings.

The Regulations of the Shareholders' Meeting pay particular attention to the right to participate, as developed upon in Article 7 and explained in detail in Section E.3 above, which should be consulted for further information.

Regarding the use of electronic voting, please see section E.3 above.

Law 25/2011, of August 1, 2011, partially reforming the Corporate Enterprises Law, established further provisions in this regard, leading to a need to adapt the Corporate Bylaws and Regulations of the Shareholders' Meeting at the Annual Shareholders' Meeting held on April 19, 2012.

E.5. Indicate whether the Chairman of the Board of Directors chairs Shareholders' Meetings. Give details, as appropriate, of what measures are adopted to ensure the independence and sound functioning of the Shareholders' Meeting:

YES NO

Details of measures
<p>As provided in the Company's regulations, the office of Chairman of the Shareholders' Meeting falls to the Chairman of the Board of Directors.</p> <p>Article 12 of the Regulations of the Shareholders' Meeting establishes that the Shareholders' Meeting will be chaired by the Chairman of the Board of Directors and, in his absence, by the corresponding Deputy Chairman, either by rank or longest time in office. Failing that, it will be chaired by the person appointed by the Board of Directors and, if no appointment has been made, by the Director or shareholder freely chosen by the shareholders attending each meeting.</p> <p>The Secretary or, as the case may be, Deputy Secretary of the Board of Directors will act as Secretary of the Shareholders' Meeting. If both are absent, the Secretary of the Shareholders' Meeting will be the Director or shareholder freely chosen by the shareholders attending each meeting.</p>



The Chairman is tasked with chairing the meeting and establishing the order of deliberations and speeches; deciding on the method of voting on resolutions; handling any questions, clarification or claims arising in relation to the agenda, the list of attendees, share ownership, delegations or proxies, quorum requirements for the valid constitution of the Shareholders' Meeting and the adoption of resolutions, or the Bylaws limit on voting rights; and granting the floor to the shareholders who so request, withdrawing or refusing the floor when he deems the matter in question has been sufficiently debated.

The new content of article 5 of the Regulations of the Board of Directors and article 13 of the Corporate Bylaws, both of which were modified at the Annual Shareholders' Meeting held on April 19, 2012, to adapt them to Law 25/2011, of 1 August, partially reforming the Corporate Enterprises Law, establishes measures to guarantee the independence and successful functioning of the Shareholders' Meeting. To this end, these provisions require that Shareholders' Meeting, both Ordinary and Extraordinary, must be called through announcements published, at least, in the following: (i) the Official Mercantile Registry Gazette or one of the largest circulation newspapers in Spain; (ii) the website of the CNMV; and (iii) the Company website. The announcement published on the Company website should remain accessible thereon until, at least, the Shareholders' Meeting is held. The Board of Directors may decide to publish the announcement in any other media it considers appropriate to further publicise the call notice.

As already mentioned, the Annual Shareholders' Meeting held on April 19, 2012 ratified the creation of the corporate website "www.ree.es", which has been registered with the Mercantile Registry.

Pursuant to the provisions of the aforementioned articles, the announcement will state the name of the Company, the date and time of the meeting on first call, the agenda, including all items to be discussed, the position of the person(s) calling the meeting, the date by which the shareholder must have registered their shares in order to be able to attend and vote at the Annual Shareholders' Meeting, the location of the Meeting, how to obtain the full text of the documents and proposed resolutions, and the address of the website where the information is available. The announcement may also state the date on which the Meeting will take place at second call, if applicable. There must be a period of at least 24 hours before the first and second Meetings.

Furthermore, the announcement must contain clear and precise information on the requirements for shareholders to attend and vote at the Shareholders' Meeting, including, in particular, the following:

- a) The right to request information, to include items on the Agenda and to submit proposed resolutions, and the deadlines for doing so. When it is stated that further information is available on these rights on the Company website, the announcement may be limited to indicating such deadlines.



- b) The proxy voting system, particularly indicating the ballots to be used for delegating voting rights and the requirements for the Company to be able to accept notification of proxy representation by electronic means.
- c) The procedures for remote voting, by post or email.

The call notice must state the right of shareholders to examine, immediately and at no cost at the Company's registered offices, the documents to be submitted for approval at the Shareholders' Meeting and the technical reports required by Law. Furthermore, in the event that the Shareholders' Meeting is to decide upon any change to the Company Bylaws, this must be detailed with due clarity.

Shareholders' Meetings shall be held in Spain at such venue as may be decided in each case by the Board of Directors, and as shall be duly indicated in the call notice.

It is worth noting here, in view of its importance to the Company, that pursuant to the LSC, the Corporate Bylaws can expressly establish a venue for the Shareholders' Meeting outside the municipality where the registered office is located, an option which has been included in Article 13 of the Corporate Bylaws and Article 5 of the Regulations of the Shareholders' Meeting.

Shareholders owning five percent of the share capital may ask the Board of Directors to include any item on the Agenda of the next Annual Shareholders' Meeting, during the period from the previous Annual Shareholders' Meeting to the date for which the Board agrees the next Meeting. Any such request must be made in the form and subject to the terms and conditions set out in the Regulations of the Shareholders' Meeting. The Board of Directors will include any issues requested on the Agenda in the form that best meets the Company's corporate interests, providing that such issues fall within the competencies of the Shareholders' Meeting.

From the announcement of the call notice until the date of the Shareholders' Meeting, the Company must display the following information, at least, on its website:

- a) The call notice announcement.
- b) The total number of shares and voting rights on the date of the call notice, broken down by share category, as applicable.
- c) The documents to be submitted to the Shareholders' Meeting, in particular, the reports of the directors, the auditors and independent



experts.

- d) The full texts of proposed resolutions or, in the absence of these, a report from the competent bodies discussing each of the points on the Agenda. It will also include all proposed resolutions submitted by shareholders, as these are received.
- e) The proxy and remote voting ballots to be used, unless these are sent directly to each shareholder. If it is not possible to publish these on the website for technical reasons, the Company must indicate how these ballots can be obtained on paper; these ballots must be sent to all shareholders who request them.

Shareholders representing at least five percent of the capital stock may request the publication of a supplement to the call notice for an Annual Shareholders' Meeting, including one or more items on the agenda, providing that these new points are accompanied by a justification or, as appropriate, a duly justified proposed resolution. This right may not be exercised for Extraordinary Shareholders' Meetings. This right must be exercised by giving duly authenticated notice which must be received at the registered office within five days after the publication of the call notice. The supplement to the call notice must be published at least fifteen days prior to the date set for holding the Shareholders' Meeting. Failure to publish the supplement to the call notice by the statutory deadline shall be a ground for rendering the Shareholders' Meeting void.

Shareholders representing at least five percent of the capital stock may, in the period stipulated in the preceding paragraph, present reasoned proposed resolutions on issues already included, or that should be included, on the Agenda of the Meeting called. The Company shall ensure that such proposed resolutions and any associated documentation are distributed to other shareholders in accordance with the provisions of section 5d) of article 13 of the Corporate Bylaws and point d) of the seventh paragraph of article 5 of the Regulations of the Shareholders' Meeting.

The quorum necessary for constitution of the Shareholders' Meeting is established in Article 14 of the Corporate Bylaws and in Article 11 of the Regulations of the Shareholders' Meeting. The Corporate Bylaws and the Regulations of the Shareholders' Meeting do not differ from the provisions established in Articles 193 and 194 LSC. As already indicated, the minimum share requirement (50) in order to be able to attend Shareholders' Meetings was eliminated from the Corporate Bylaws in 2003.

Article 15 of the Regulations of the Shareholders' Meeting contains detailed rules for the sound functioning of the Shareholders' Meeting. This Article provides that, prior to addressing the items on the agenda, a list of



attendees will be drawn up, detailing the status or representative authority of each attendee and the number of shares with which they attend, whether in person or by proxy. The number of shareholders present in person or by proxy and the amount of capital held by them will be stated at the bottom of the list, summarizing the capital corresponding to shareholders with the right to vote, and all such data will be verified by the Secretary.

Once the meeting has been called to order, the Secretary will read the call and attendance data based on the list of attendees. Based on the list of attendees, the Chairman will declare the meeting to be validly constituted, if appropriate. If a notary is present at the request of the Company to draw up the Minutes of the meeting, he will ask those attending if there are any reservations or objections to the shareholder attendance and capital data stated by the Chairman.

At the Annual Shareholders' Meeting the Chairman will inform the meeting of the most significant matters in the year and the proposals of the Board, and his presentation may be completed by the individuals authorized by him.

The Chairman of the Audit Committee will be available to the Shareholders' Meeting to respond to any questions raised by the shareholders on matters falling within its jurisdiction.

When the appropriate presentations have been concluded, the Chairman shall grant the floor to shareholders who have so requested, directing and coordinating the debate, and seeking to follow the established agenda.

Article 15.8 of the Regulations of the Shareholders' Meeting establishes that each share gives the right to one vote on the terms established in the Corporate Bylaws, with the limits set out therein as required by the Electricity Industry Law.

The Chairman will also decide on the most suitable method for voting in each case, announcing it publicly at the Shareholders' Meeting sufficiently in advance and prior to the vote.

Article 15 of the Regulations of the Shareholders' Meeting allows for the possibility of establishing electronic voting systems, provided that the identity of the voter and his status as shareholder or proxy holder are evidenced and that the number of shares with which he votes, as well as the direction of the vote or, as the case may be, his abstention, are stated clearly and unequivocally.

Article 17 of the Corporate Bylaws and Article 15.9 of the Regulations of the Shareholders' Meeting do not differ from the provisions established in the legislation in force, since they simply establish that resolutions will be adopted by majority vote, except where a higher majority is required by law. Following the modifications made in this regard at the Annual Shareholders' Meeting held on April 19, 2012, it was added that for each



resolution put to a vote by the Annual Shareholders' Meeting the following, as a minimum, should be determined: the number of shares for which valid votes were cast; the proportion of the share capital represented by such votes; the total number of valid votes; the number of votes in favour; and the number of votes against; and the number of abstentions.

In addition, a final paragraph was added to article 17 of the Corporate Bylaws and a new article 15.11 was added to the Shareholders' Meeting Regulations, establishing that the resolutions adopted and the voting results will be published in full on the Company's website within five days following the end of the Annual Shareholders' Meeting.

All the above is also without prejudice to the rights to participate, to information and to attend, which are described in sufficient detail in Section E.3 of this Report.

A new development in 2012 was the review of the voting management and results processes at the Annual Shareholders' Meeting held on April 19, 2012 by the consultancy Deloitte. Their final report identified a number of the Company's strengths, whilst also making proposals for improvements and a number of recommendations.

E.6. Indicate, as appropriate, any amendments made to the Regulations of the Shareholders' Meeting during the year.

The Annual Shareholders' Meeting held on April 19, 2012, approved modifications to a number of articles in the Regulations of the Shareholders' Meeting to update them pursuant to Act 25/2011, of August 1, partially reforming the Corporate Enterprises Law (Legislative Royal Decree 1/2010, of July 2, approving the revised text of the LSC) and to incorporate Directive 2007/36/EC of the European Parliament and of the Council, of July 11, on the exercise of certain rights by shareholders of listed companies, that affected the regime of public limited companies and, in particular, listed public limited companies, in accordance with the proposed revisions of the Corporate Bylaws also submitted to the Shareholders' Meeting.

This consisted of changes to articles 5 ("Call"), 6 ("Shareholder rights"), 8 ("Shareholder rights to information"), 10 ("Representation") and 15 ("Constitution, deliberation and adoption of resolutions"), including sections 15.4 "Request for Information", 15.5 "Debate", 15.8 "Voting" and 15.9 "Adoption of resolutions", and addition of a new section 15.11 "Publication of resolutions on the website", of the Regulations of the Shareholders' Meeting.

The approved amendments to the Regulations of the Shareholders' Meeting have been notified to the CNMV, registered at the Mercantile Registry and published on the Company's website.



E.7. Indicate the data on attendance at the Shareholders' Meetings held in the year to which this Report refers:

Date of Shareholders' Meeting	Attendance Data				Total
	% Attendance in person	% Attendance by proxy	% Remote voting		
			Electronic voting	Other	
19.04.12	20.8%	41.0%	0.1%	--	61.9%

E.8. Briefly indicate the resolutions adopted at the Shareholders' Meetings held in the year to which this Report refers and the percentage of votes with which each resolution was adopted:

Resolutions adopted	For	Against	Abstentions
1. Examination and approval, as the case may be, of the Financial Statements (balance sheet, income statement, statement of changes in equity, statement of acknowledged income and expenses, cash flow statement, and notes to financial statements) and the Management Report of Red Eléctrica Corporación, S.A. for the year ended December 31, 2011.	99.931%	0.030%	0.039%
2. Examination and approval, as the case may be, of the consolidated Financial Statements (consolidated balance sheet, consolidated income statement, consolidated overall income statement, consolidated statement of changes in equity, consolidated cash flow statement, and notes to the consolidated financial statements) and the Management Report of the consolidated group of Red Eléctrica Corporación, S.A. for the year ended December 31, 2011.	99.929%	0.032%	0.039%
3. Examination and approval, as the case may be, of the proposed distribution of income of Red Eléctrica Corporación, S.A. for the year ended December 31, 2011.	99.955%	0.005%	0.040%
4. Examination and approval, as the case may be, of the conduct of management by the Board of Directors of Red Eléctrica Corporación, S.A. in 2011.	99.678%	0.163%	0.159%
5.1 Reappointment of José Folgado Blanco as a director.	79.229%	19.082%	1.689%
5.2 Appointment of Alfredo Parra García-Moliner as a director.	98.917%	1.005%	0.078%



5.3 Appointment of Francisco Ruiz Jimenez as a director.	98.896%	1.028%	0.076%
5.4 Appointment of Fernando Fernández Méndez de Andés as a director.	99.041%	0.882%	0.077%
5.5 Appointment of Paloma Sendín de Cáceres as a director.	99.103%	0.820%	0.077%
5.6 Appointment of Carmen Gómez de Barreda Tous de Monsalve as a director.	99.503%	0.419%	0.078%
5.7 Appointment of Juan Iranzo Martín as a director.	99.382%	0.544%	0.074%
6. Reappointment of the auditors of the Parent Company and of the Consolidated Group.	98.740%	0.880%	0.380%
7.1 Modification of the Corporate Bylaws to adapt them to recent legislative changes relating to listed companies and other stylistic or order changes to make the text of the Corporate Bylaws more precise: Modification of Articles 11 (“Annual Shareholders’ Meeting”), 12 (“Types of Shareholders’ Meetings”), 13 (“Calling the Shareholders’ Meeting”), 15 (“Right to information and attendance of Shareholders’ Meetings”), 17 (“Presiding Panel, deliberations”), 17 Bis (“Remote voting”), 21 (“Functioning of the Board of Directors”) and 32 (“Regulations and winding up”) of the Corporate Bylaws.	97.734%	1.855%	0.411%
7.2 Modification to remove the submission to arbitration and replace it with submission to the Courts and Tribunals: Removal of article 34 (“Conflict resolution”) from the Corporate Bylaws.	99.937%	0.018%	0.045%
8. Modification of the Regulations of the Shareholders’ Meeting to adapt them to the latest legislative changes relating to listed companies and other stylistic or order changes to make the text of the Regulations of the Shareholder’s Meeting more precise: This included changes to articles 5 (“Call”), 6 (“Shareholder rights”), 8 (“Shareholder rights to information”), 10 (“Representation”) and 15 (“Constitution, deliberation and adoption of resolutions”), including sections 15.4 “Request for Information”, 15.5 “Debate”, 15.8 “Voting” and 15.9 “Adoption of resolutions”, and adding section 15.11 “Publication of resolutions on the website”, of the Regulations of the Shareholders’ Meeting.	97.977%	1.612%	0.411%
9.1 Authorization for the derivative acquisition of treasury stock by the Company or by companies of the Red Eléctrica Group, and for the direct award of treasury stock to employees and Executive Directors of the Company and of the	98.452%	1.508	0.040



companies of the Red Eléctrica Group, as compensation.			
9.2 Approval of a Compensation Plan for members of Management and the Executive Directors of the Company and of the companies of the Red Eléctrica Group.	99.734%	0.221%	0.045%
9.3 Revocation of previous authorizations.	99.929%	0.024%	0.047%
10.1 Approval of the Annual Report on the compensation of the directors of Red Eléctrica Corporación, S.A.	94.537%	5.394%	0.069%
10.2 Approval of the compensation of the Board of Directors of Red Eléctrica Corporación, S.A. for 2011.	98.903%	0.948%	0.149%
11. Ratification of the creation of a Company website.	99.957%	0.005%	0.038%
12. Delegation of authority to fully implement the resolutions adopted at the Shareholders' Meeting.	99.675%	0.005%	0.320%
13. Information to the Shareholders' Meeting on the 2011 Annual Corporate Governance Report of Red Eléctrica Corporación, S.A.	For information	For information	For information

E.9. Indicate whether there is any restriction in the Bylaws regarding the minimum number of shares necessary to attend the Shareholders' Meeting:

YES NO

Number of shares necessary to attend the Shareholders' Meeting	1
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E.10. Indicate and provide support for the policies followed by the Company with respect to proxy voting at Shareholders' Meetings:

The Company has no specific policy for granting proxies to vote at Shareholders' Meetings. Notwithstanding the above, the Corporate Bylaws and the Regulations of the Shareholders' Meeting establish specific conditions for the representation of shareholders at Shareholders' Meetings.

To this effect, Article 15 of the Corporate Bylaws and Article 10 of the Regulations of the Shareholders' Meeting provide that shareholders with the right to attend may be represented at the Shareholders' Meeting by any other person, in the manner established in the Corporate Enterprises Law. The condition that the proxy must be a Company shareholder has been withdrawn, following approval of adopting the content of Law 25/2011 at the



Annual Shareholders' Meeting held on April 19, 2012. Proxies must be conferred in writing and specifically for each Meeting.

Except for cases of public proxies, which are subject to the legal provisions in force, no person can accumulate proxy votes that, together with their votes, give them voting rights exceeding 3% of capital. In addition, shares may not be pooled for any purpose.

Royal Decree-Law 13/2012, of March 30, incorporated a number of Directives into Spanish law. One of these was Directive 2009/72/EC of July 13, 2009, which proclaims the mandatory independence of transmission companies and operators of European electricity systems. This endorsed the legal limits on holdings and voting rights applicable to the Company's shareholders, including some further restrictions on companies involved in generating and resale. Royal Decree-Law 13/2012, of March 30, modified Additional Provision Twenty Three of the Electricity Industry Law and article 34.1 of Law 54/1997, of November 27, on the Electricity Industry.

The shareholding limits established in the new draft of Additional Provision Twenty Three of Law 54/1997, of November 27, on the Electricity Industry, continue to be basically the same as previously established, with some added limitations for generators and resellers:

- 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 capital and they do not exercise more than 3% of voting rights. These shares may not be pooled for any purpose whatsoever.
- Parties that engage in activities in the electricity industry, and those individuals or legal entities that directly or indirectly hold more than 5% of their capital, may not exercise more than 1% of voting rights, without prejudice to the limitations established in article 34.2 of the Electricity Industry Law for generators and resellers.
- The special regime for Sociedad Estatal de Participaciones Industriales (SEPI) is maintained, whereby it must hold at least ten percent (10%) of capital in all cases.

These legal provisions on the general and special shareholding regime are incorporated in articles 5 and 14 and the Sole Additional Provision of the Corporate Bylaws, and in article 6.3 of the Regulations of the Annual Shareholders' Meeting.

These legal provisions have been included in the Corporate Bylaws and the Regulations of the Shareholders' Meeting, as indicated in section E.3 above.

Also notable are the provisions of the Corporate Bylaws and Regulations of the Shareholders' Meeting regarding electronic voting and proxies, which have been successfully applied since 2005 and are discussed in detail in section E.3 above.



As is customary, the Company facilitated the use of electronic voting systems and proxies by shareholders for the Annual Shareholders' Meeting held on April 19, 2012, following approval of the corresponding procedure by the Board meeting held on March 12, 2012.

E.11. Indicate whether the Company is aware of the policy of institutional investors on whether or not to participate in the Company's decisions:

YES NO

Describe the policy
<p>The Company's relations with its shareholders and institutional investors are general in nature and no specific or special relationships are held with any of them.</p> <p>The Company regularly organizes road shows, conducted by senior management, at principal financial centres in Spain and abroad where there is a high concentration of institutional investors, to inform them of its activities and its business performance, in an attempt to forge closer ties with these investors.</p> <p>Given the high percentage of foreign institutional investors (around 70%), in 2012 as in previous years, the Company carried out a programme of investor and <i>proxy advisor</i> visits to receive relevant and up-to-date information, and to explain its Corporate Governance activities and practices. These visits aimed to establish adequate mechanisms for regular exchange of information with domestic and foreign investors and leading <i>proxy advisors</i>, to continue adapting to the most advanced international Corporate Governance standards.</p> <p>Under no circumstances does the Company disclose to institutional shareholders any information that might place them in a privileged or advantageous situation vis-à-vis the other shareholders; rather, all information exchanged is public information.</p> <p>All the above is in accordance with the provisions of the Regulations of the Board of Directors.</p>

E.12. Indicate the URL and means of accessing corporate governance content on the website.

Article 2 of the Regulations of the Shareholders' Meeting establishes the content of the Company website, the purpose of which is to serve as an instrument to ensure transparency in the way the Company conducts itself and, at the same time, to allow shareholders to exercise their rights more



effectively, as well as make their dealings with the Company easier. The Company has been using this form of communication since it was listed on the stock markets in 1999. The content of the website is updated regularly and exceeds the requirements of the applicable legislation.

Under Law 25/2011 more prominence was given to company websites, since it introduced a new Article 11 bis to the Corporate Enterprises Law regulating the online site or corporate website. The Law also incorporated an obligation under Article 516 of the Corporate Enterprises Law for listed companies to use the website to disseminate the call notice for the Shareholders' Meeting, something which Red Eléctrica Corporación, S.A. has been doing for a number of years.

As indicated previously, Law 25/2011 established the obligation on corporate enterprises to have a website, which must be approved by the Shareholders' Meeting and registered at the Mercantile Registry. As a result, the Annual Shareholders' Meeting held on April 19, 2012, ratified the creation of the website of RED ELÉCTRICA and this has been registered with the Mercantile Registry.

The Company's website, www.ree.es, includes a "Shareholders and Investors" section accessible from the home page. Among other items, this includes a section specifically entitled "Corporate Governance" containing full information on this subject that may be of interest to shareholders. The website includes the following content, among other items, in accordance with the Regulations of the Shareholders' Meeting:

- The Corporate Bylaws.
- The Regulations of the Shareholders' Meeting, the Regulations of the Board of Directors and other corporate governance provisions.
- Quarterly reports for the year and annual reports for the past two years, together with reports by the external auditor.
- The Annual Corporate Governance Report prepared by the Board.
- The composition of the Board and its Committees.
- Details of shareholders with stable holdings, both direct and indirect, and their representation on the Board, as well as any side agreements between shareholders that have been disclosed to the Company and the market.
- The shareholdings of each of the members of the Board.
- The report on the compensation policy for the Board of Directors.



- Information contained in the presentations made to different market operators and analysts, intermediaries and significant shareholders.
- Material events disclosed to the CNMV.
- The resolutions adopted at the last Shareholders' Meeting, including details on the composition and result of the vote.
- The current call for the next Shareholders' Meeting.
- Any information that must be made available to shareholders along with the call for the Shareholders' Meeting.
- Responses to proposals and suggestions made by shareholders;
- Communication channels between the Company and the shareholders and the relevant explanations regarding the exercise of the right to information, indicating the postal and electronic mail addresses to which shareholders may send their questions.
- The Shareholders' Electronic Forum and its Operating Rules.
- Means and procedures for granting proxies for Shareholders' Meetings, as well as the means and procedures for casting votes remotely, with the ballots approved for doing so.

As regards the disclosure of resolutions approved by the Shareholders' Meeting, Article 17 of the Regulations of the Shareholders' Meeting specifies that, without prejudice to the recording of all registrable resolutions at the Mercantile Registry and to any applicable legal provisions regarding disclosure of corporate resolutions, the Company will submit the text of the approved resolutions to the CNMV in a notice disclosing a material event, on the same day the meeting is held or on the immediately following business day. Once it has been reported to the CNMV, the text of the resolutions will also be made available on the Company website.

Work continued in 2012 to improve the content of the Company website as a means of communication with shareholders and investors, pursuant to Order ECO/3772/2003 of December 26, 2003 and CNMV Circular 4/2007. The following developments are particularly noteworthy:

- The live and simultaneous broadcast, in Spanish and English, of the Annual Shareholders' Meeting held on April 19, 2012.



- The live and simultaneous broadcast, in Spanish and English, of the presentation of 2011 year-end results and the Company's 2011-2015 Strategic Plan.
- The publication in English of the call notice, as from the date of its publication in Spanish, and proposed resolutions submitted for approval to the Shareholders' Meeting, as well as all the related documentation, including the Annual Corporate Governance Report.

As in 2011, in 2012 the Shareholders' Electronic Forum was available to shareholders. This Forum was created by Red Eléctrica Corporación, S.A. on its website, *www.ree.es*, on the occasion of holding its Shareholders' Meetings. It meets the need established in the last paragraph of Article 117.2 of Securities Market Law 24/1988, of July 28, 1988, introduced by Law 12/2010 of June 30, 2010, and in Article 539.2 of the Revised Corporate Enterprises Law, approved by Legislative Royal Decree 1/2010, of July 2, 2010.

This tool was incorporated into Article 8.4 of the Regulations of the Shareholders' Meeting, following its approval by the Shareholders' Meeting held on April 13, 2011.

The purpose of the Forum is to facilitate communication among the shareholders of Red Eléctrica with a view to publishing proposals to supplement the agenda contained in the call notice, issuing requests for adherence to such proposals, presenting initiatives in order to reach the percentage to exercise the minority right envisaged in the law or making offers or requests for voluntary representation. The Forum set up in 2012 was not used by the Company's shareholders.

F DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree to which the Company complies with the recommendations of the Unified Good Governance Code.

In the event of noncompliance with any of the recommendations, explain the recommendations, rules, practices or criteria used by the Company.

As at December 31, 2012, the Company had achieved 100% compliance with Corporate Governance recommendations in comparison with the compliance level in the 2011 Annual Corporate Governance Report, in which it was only partially compliant with recommendation 44 and not compliant with recommendation 54.

- 1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other**



restrictions that hinder the taking of control at the Company by means of the acquisition of its shares on the market.

See sections: A.9, B.1.22, B.1.23 and E.1, E.2.

Complies Explain

2. **When a parent company and a subsidiary are listed, the two should provide detailed disclosure on:**

- a) **Their respective areas of activity and any business dealings between them, as well as between the listed subsidiary and other Group companies:**
- b) **The mechanisms in place to resolve possible conflicts of interest.**

See sections: C.4 and C.7

Complies Complies partially Explain Not applicable

3. **Even when not expressly required under corporate/commercial law, any decisions involving a structural change should be submitted to the Shareholders' Meeting for approval or ratification. In particular:**

- a) **The conversion of listed companies into holding companies by way of "subsidiarization", or the transfer to dependent entities of core activities previously pursued by the original company, even where the latter retains full control of the former;**
- b) **Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;**
- c) **Operations the effect of which is equivalent to the company's liquidation.**

Complies Complies partially Explain

4. **Detailed proposals of the resolutions to be adopted at the Shareholders' Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the call notice.**

Complies Complies partially Explain

5. **Separate votes should be taken at the Shareholders' Meeting on substantially independent items, so that shareholders can express their preferences in each case. This rule will apply in particular to:**

- a) **The appointment or ratification of Directors, with separate voting on each;**
- b) **Amendments to the Corporate Bylaws, with votes taken on all articles or groups of articles that are substantially independent.**



See section: E.8

Complies X Complies partially Explain

6. **Companies should allow split votes, so that financial intermediaries acting as nominees on behalf of different clients can issue their votes according to their client's instructions.**

Complies X Explain

7. **The Board should perform its duties with unity of purpose and independent judgment, treat all shareholders equally and be guided by the interests of the Company, understood to be maximizing the economic value of the Company on a sustained basis.**

The Board also should ensure that the Company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and agreements in good faith; respects the customs and good practices of the industries and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies X Complies partially Explain

8. **The core mission of the Board should be to approve the Company's strategy and authorize the organizational resources to implement it, and ensure that management meets the objectives set while pursuing the Company's interests and corporate purpose. As such, the plenary session of the Board should reserve the right to approve:**

- a) **The general policies and strategies of the Company, in particular:**

- i) **The strategic or business plan, as well as annual management objectives and budgets;**
- ii) **The investment and financing policy;**
- iii) **Definition of the structure of the corporate group**
- iv) **The corporate governance policy;**
- v) **The corporate social responsibility policy;**
- vi) **The policy regarding compensation and evaluation of senior executives;**
- vii) **The risk control and management policy, as well as periodic monitoring of internal reporting and control systems;**
- viii) **The dividend and treasury stock policies and, in particular, their limits.**

See sections: B.1.10, B.1.13, B.1.14 and D.3

- b) **The following decisions:**

- i) **On the proposal of the Company's Chief Executive, the appointment and removal of senior executives, and their indemnification clauses.**



See section: B.1.14

- ii) Directors' compensation and, in the case of Executive Directors, the additional consideration for their executive functions and other contractual conditions that must be observed.

See section: B.1.14

- iii) The financial information that the Company must periodically disclose as a listed company.
 - iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the Shareholders' Meeting;
 - v) The creation or acquisition of shares in special-purpose vehicles or entities resident in countries or territories that are considered tax havens, and any other transactions or operations of an analogous nature whose complexity could impair the transparency of the Group.
- c) Transactions the Company enters into with Directors, significant shareholders, shareholders with Board representation or other persons related thereto ("related-party transactions").

However, Board authorization will not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
2. They are made at prices or rates generally set by the person supplying the goods or services in question;
3. Their amount is no more than 1% of the company's annual revenues.

It is recommended that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or any other Committee to which this function has been entrusted, and that any Directors involved should not exercise or delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes.

Ideally the powers attributed to the Board in this section should be deemed to be non-delegable with the exception of those mentioned in letters b) and c), which may be delegated to the Delegated Committee for reasons of urgency and later ratified by the plenary session of the Board.

See sections: C.1 and C.6

Complies | Complies partially | Explain



9. To operate effectively and encourage participation, the Board of Directors should ideally comprise no less than five and no more than fifteen members.

See section: **B.1.1**

Complies X Explain

10. External Directors, both Nominee and Independent, should occupy an ample majority of Board positions, while the number of Executive Directors should be the minimum necessary, bearing in mind the complexity of the corporate group and the percentage holdings of Executive Directors.

See sections: **A.2, A.3 and B.1.3**

Complies X Complies partially Explain

11. If any External Director cannot be deemed a Nominee or Independent Director, the Company should disclose this circumstance and the links that person maintains with the Company or its executives, or with its shareholders.

See section: **B.1.3**

Complies X Explain Not applicable

12. Among External Directors, the ratio of Nominee Directors to Independent Directors should reflect the proportion between the capital represented on the Board by Nominee Directors and the remainder of the Company's capital.

This proportionality rule may be relaxed so that the weighting of Nominee Directors is greater than would strictly correspond to the total percentage of capital they represent:

1. In large cap companies where few or no shareholdings are legally deemed significant shareholdings, but there are shareholders whose shareholdings have a high absolute value.
2. In companies with numerous shareholders represented on the Board but not otherwise related.

See sections: **A.2, A.3 and B.1.3**

Complies X Explain

13. The number of Independent Directors should represent at least one-third of all Directors.

See section: **B.1.3**



Complies X Explain

14. The category of each Director should be explained by the Board to the Shareholders' Meeting which is to make or ratify his/her appointment and should subsequently be confirmed or reviewed annually in the Annual Corporate Governance Report, after verification by the Appointments Committee. The report should also disclose the reasons for the appointment of Nominee Directors proposed by shareholders with shareholdings of less than 5% of capital, and explain why formal requests for presence on the Board have not been honoured from shareholders whose holdings are greater than or equal to those of others upon whose request Nominee Directors have been appointed.

See sections: B.1.3 and B.1.4

Complies X Complies partially Explain

15. When female Directors are few or nonexistent, the Board should state the reasons why and the initiatives adopted to correct the situation; in particular, with respect to vacancies, the Appointments Committee should take steps to ensure that:

- a) Selection processes do not suffer from implicit bias preventing the selection of female Directors;
- b) The Company makes a conscious effort to include women with the target profile among the candidates for Board positions.

See sections: B.1.2, B.1.27 and B.2.3

Complies X Complies partially Explain Not applicable

16. The Chairman, as the person responsible for the sound functioning of the Board should ensure that Directors are supplied with sufficient information in advance of Board meetings, and prompt debate and encourage the active involvement of all members, safeguarding their rights to freely express and adopt positions; and organize and coordinate regular evaluations of the Board and, where appropriate, the Company's Chief Executive, along with the Chairmen of the relevant Committees.

See section: B.1.42

Complies X Complies partially Explain

17. Where the Board Chairman is also the Company's Chief Executive, an Independent Director should be empowered to request the call of Board meetings or the inclusion of new items on the agenda in order to coordinate and give voice to the concerns of External Directors and to lead the Board's evaluation of the Chairman.



See section: B.1.21

Complies x Complies partially Explain Not applicable

18. The Board Secretary should take special care to ensure that the Board's actions:

- a) **Adhere to the spirit and letter of laws and their implementing regulations, including those approved by regulatory agencies;**
- b) **Comply with the Corporate Bylaws, the Regulations of the Shareholders' Meeting, the Regulations of the Board of Directors and other regulations at the Company;**
- c) **Are informed by the good governance recommendations of the Unified Code that the Company has subscribed to.**

In order to safeguard the independence, impartiality and professionalism of the Secretary, his/her appointment and removal should be proposed by the Appointments Committee and approved by the plenary session of the Board and the relevant appointment and removal procedures should be stipulated in the Regulations of the Board of Directors.

See section: B.1.34

Complies X Complies partially Explain

19. The Board should meet as often as needed to effectively perform its functions, in accordance with the schedule of dates and matters established at the beginning of the year, and each Director may propose other items not initially included on the agenda.

See section: B.1.29

Complies X Complies partially Explain

20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When Directors have no choice but to delegate their vote, they should do so with instructions.

See sections: B.1.29 and B.1.30

Complies X Complies partially Explain

21. When Directors or the Secretary express concerns about any proposal or, in the case of Directors, about the Company's performance, and such concerns are not resolved at the Board, the person expressing them can request that they be recorded in the Minutes.

Complies X Complies partially Explain Not applicable



22. The plenary session of the Board should evaluate the following each year:

- a) The quality and efficiency of the functioning of the Board;
- b) Based on the report submitted by the Appointments Committee, the performance of their functions by the Board Chairman and the Company's Chief Executive;
- c) The performance of its Committees on the basis of the reports furnished by them.

See section: B.1.19

Complies X Complies partially Explain

23. All Directors should be able to exercise their rights to receive any additional information they require on matters falling within the Board's jurisdiction. Unless otherwise indicated in the Corporate Bylaws or Regulations of the Board of Directors, such requests should be addressed to the Board Chairman or Board Secretary.

See section: B.1.42

Complies X Explain

24. All Directors should be entitled to call on the Company for the advice and guidance they need to perform their functions. The Company should provide suitable channels for the exercise of this right, which may include external advice in special circumstances at the Company's expense.

See section: B.1.41

Complies X Explain

25. Companies should organize induction programs for new Directors as a swift means of sufficiently familiarizing them with the workings of the Company and its corporate governance rules. Directors should also be offered refresher programs when circumstances so advise.

Complies X Complies partially Explain

26. Companies should require their Directors to devote sufficient time and effort to perform their functions effectively, and, as such:

- a) Directors should inform the Appointments Committee of any other professional obligations, in case they might affect the level of dedication required;
- b) Companies should establish rules about the number of directorships their Board members can hold.

See sections: B.1.8, B.1.9 and B.1.17



when a Director is in breach of the duties inherent in his/her position or is subject to any of the circumstances described in section III.5 (Definitions) of this Code.

The removal of Independent Directors may also be proposed when a tender offer, merger or similar corporate transaction produces changes in the capital structure of the Company, in order to meet the proportionality criterion set out in Recommendation 12.

See sections: **B.1.2, B.1.5 and B.1.26**

Complies X

Explain

32. Companies should establish rules obliging Directors to inform the Board of any circumstances that might harm the organization's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the Board of any criminal proceedings in which they appear as an accused party, and of subsequent progress in the case.

Where a Director is indicted or a decision is rendered to bring him to trial for any of the crimes referred to in Article 213 of the Corporate Enterprises Law, the Board should review the matter as soon as possible and, in light of the specific circumstances, decide whether or not it is appropriate for the Director to remain in office. The Board should give a reasoned account of the matter in the Annual Corporate Governance Report.

See sections: **B.1.43 and B.1.44**

Complies X

Complies partially

Explain

33. All Directors should express clear opposition when they feel a proposal submitted for the Board's approval could be contrary to the corporate interest. In particular, Independent and other Directors unaffected by the potential conflict of interest should challenge any decision that could harm the interests of shareholders not represented on the Board.

When the Board makes material or reiterated decisions about which a Director has expressed serious reservations, he/she must draw the pertinent conclusions. Directors resigning for such causes should explain their reasons in the letter referred to in the next Recommendation.

This Recommendation should also apply to the Secretary of the Board; Director or otherwise.

Complies X

Complies partially

Explain

Not applicable

34. Directors who give up their positions before their term of office expires, through resignation or otherwise, should explain their reasons in a letter to be sent to all members of the Board. Regardless of whether such



resignation is disclosed as a material event, the reasons for same must be explained in the Annual Corporate Governance Report.

See section: B.1.5

Complies X Complies partially Explain Not applicable

35. The Company's compensation policy, as approved by its Board of Directors, should specify at least the following items:

- a) **The amount of the fixed components, itemized where necessary, of Board and Board Committee attendance fees, with an estimate of the fixed annual payment they give rise to;**
- b) **Variable components, in particular:**
 - i) **The types of Director to which they apply, with an explanation of the relative weighting of variable to fixed compensation items;**
 - ii) **Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related compensation;**
 - iii) **The main parameters and grounds for any system of annual bonuses or other, non-cash benefits; and**
 - iv) **An estimate of the absolute amount of the variable compensation arising from the proposed compensation plan, depending on the degree of compliance with the assumptions or objectives taken as a reference.**
- c) **The principal characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.**
- d) **Conditions that must be respected in the contracts of Executive Directors exercising senior management functions. Among them:**
 - i) **Term;**
 - ii) **Notice periods; and**
 - iii) **Any other clauses covering hiring bonuses, as well as indemnities or 'golden parachutes' in the event of early termination of the contractual relationship between the Company and the Executive Director.**

See section: B.1.15

Complies X Complies partially Explain

36. Compensation in the form of the delivery of shares in the Company or other companies in the Group, share options or other share value-based instruments, payments linked to the Company's performance or pension plans should be confined to Executive Directors.



The delivery of shares is excluded from this limitation when Directors are required to retain them until they vacate office.

See sections: **A.3, B.1.3 and E.8**

Complies X Explain

37. External Directors' compensation should sufficiently compensate them for the dedication, abilities and responsibilities that the position entails, but should not be so high as to compromise their independence.

Complies X Explain

38. In the case of compensation linked to Company earnings, any qualifications stated in the external auditor's report that reduce those earnings should be taken into account.

Complies X Explain Not applicable

39. In the case of variable compensation, compensation policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or of the industry in which the Company operates, or other similar circumstances.

Complies X Explain Not applicable

40. The Board should submit a report on the Directors' compensation policy to the advisory vote of the Shareholders' Meeting, as a separate item on the agenda. This report can be supplied to shareholders separately or in the manner the Company sees fit.

The report will focus on the compensation policy approved by the Board for the current year with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also focus on the most significant changes in compensation policy compared with the previous year to which the Shareholders' Meeting refers. It also will include a global summary of how the policy was applied over the previous year.

The role of the Compensation Committee in designing the policy should be reported by the Board, along with the identity of any external advisers engaged.

See section: **B.1.16 and E.8**

Complies X Complies partially Explain

41. The notes to the financial statements should list individual Directors' compensation in the year, including:



- a) **A breakdown of the compensation of each Director, to include where appropriate:**
- i) **Attendance fees and other fixed Director payments;**
 - ii) **Additional compensation for acting as Chairman or a member of any Board Committee;**
 - iii) **Any payments made under profit-sharing or bonus plans, and the reason for their award;**
 - iv) **Contributions made on the Director's behalf to defined-contribution pension plans, or any increase in the Director's vested rights in the case of contributions to defined-benefit plans;**
 - v) **Any severance packages agreed or paid;**
 - vi) **Any compensation they receive as Directors of other companies in the Group;**
 - vii) **The compensation Executive Directors receive in respect of their senior management positions;**
 - viii) **Any compensation item other than those listed above, regardless of its nature and provenance within the Group, especially when it may be considered a related-party transaction or when its omission would detract from a true and fair view of the total compensation received by the Director.**
- b) **An individual breakdown of deliveries to Directors of shares, share options or other share value-based instruments, itemized by:**
- i) **Number of shares or options awarded in the year, and the terms set for their exercise;**
 - ii) **Number of options exercised in the year, specifying the number of shares involved and the exercise price;**
 - iii) **Number of options outstanding at the end of the year, specifying their price, date and other exercise conditions;**
 - iv) **Any change in the year in the terms of exercise of previously awarded options.**
- c) **Information on the relationship in the past year between the compensation obtained by Executive Directors and the Company's earnings, or other measures of the Company's performance.**

Complies X Complies partially Explain

42. **When the Company has a Delegated or Executive Committee (hereinafter, the Delegated Committee), the breakdown of its members by Director**



category should be similar to that of the Board itself. The Secretary of the Board should also act as Secretary of the Delegated Committee.

See sections: B.2.1 and B.2.6

Complies Complies partially Explain Not applicable X

- 43. The Board should be kept fully informed of the business transacted and decisions made by the Delegated Committee. To this end, all Board members should receive a copy of the Delegated Committee Minutes.**

Complies Explain Not applicable X

- 44. In addition to the Audit Committee required pursuant to the Securities Market Law, the Board of Directors should form a Committee, or two separate Committees, for Appointments and Compensation.**

The rules governing the composition and functioning of the Audit Committee and the Appointments and Compensation Committee(s) should be set forth in the Regulations of the Board of Directors, and include the following:

- a) **The Board of Directors should appoint the members of such Committees based on the knowledge, aptitudes and experience of its Directors and the tasks of each Committee; discuss their proposals and reports; and the Committees must report to the Board, at its first plenary session following each Committee meeting, on their activities and answer for their work;**
- b) **These Committees should be comprised exclusively of External Directors and have a minimum of three members. The above is without prejudice to the attendance at meetings of Executive Directors or senior executives, at the express invitation of Committee members.**
- c) **Committees should be chaired by Independent Directors.**
- d) **They may engage external advisors, when they feel this is necessary for the performance of their functions.**
- e) **Minutes should be drawn up of the proceedings and a copy sent to all Board members.**

See sections: B.2.1 and B.2.3

Complies X Complies partially Explain

- 45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Appointments Committee or to the Compliance Committee or Corporate Governance Committee, where they exist separately.**



Complies X Explain

- 46. All members of the Audit Committee, particularly its Chairman, should be appointed on the basis of their knowledge and expertise in accounting, auditing and risk management matters.**

Complies X Explain

- 47. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the sound functioning of internal reporting and control systems.**

Complies X Explain

- 48. The head of the internal audit function should present an annual work program to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.**

Complies X Complies partially Explain

- 49. The risk control and management policy should specify at least:**

- a) The various types of risk (operating, technological, financial, legal, reputational, etc.) the Company is exposed to, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks;
- b) The determination of the risk level the Company deems to be acceptable;
- c) The measures in place to mitigate the impact of the identified risks, should they occur;
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See section: D

Complies X Complies partially Explain

- 50. The Audit Committee's role should be:**

- 1. As regards internal control and reporting systems:**

- a) To supervise the preparation and integrity of the financial information relating to the Company and, as the case may be, the Group, reviewing compliance with legal provisions, the appropriate definition of the consolidated group, and the correct application of accounting principles.



- b) **To regularly review internal control and risk management systems, so that the principal risks are adequately identified, managed and disclosed.**
- c) **To ensure the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of the internal audit service; propose the budget for this service; receive regular reports on its activities; and to verify that senior management is acting on the conclusions and recommendations contained in its reports**
- d) **To establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, any potentially significant irregularities, in particular financial or accounting irregularities, they detect at the Company.**

2. As regards the external auditor:

- a) **To make recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of its engagement;**
- b) **To receive regular information from the external auditor on the audit plan and the results of its implementation, and check that senior management is acting on its recommendations;**
- c) **To ensure the independence of the external auditor, to which end:**
 - i) **The Company should disclose any change of auditor to the CNMV as a material event, accompanied by a statement of any disagreements with the outgoing auditor and the reasons for same.**
 - ii) **The Committee should ensure that the Company and the auditor adhere to current regulations on the provision of non-audit services, the limits on concentration of the auditor's business and, in general, other requirements designed to safeguard the independence of the auditor;**
 - iii) **The Committee should investigate the issues giving rise to the resignation of any external auditor.**
- d) **In the case of groups, the group auditor should be encouraged to take responsibility for auditing all the companies in the Group.**

See sections: B.1.35, B.2.2., B.2.3 and D.3

Complies X Complies partially Explain

The Board of Directors considers it appropriate, as has been the case in the past, for the Audit Committee to supervise and control the process of selection, appointment and removal of the head of the internal audit function, and its



action plans, supervising and approving the resources allocated thereto, including its budget.

Nevertheless, the Board of Directors unanimously believes that the powers to appoint and remove the head of the internal audit function and propose its budget should lie with the Company's senior management.

The Board of Directors considers that the power to supervise and control the process, more extensive than that of simply making proposals, strengthens and clarifies the content of the Recommendation itself, ensuring the suitability of the person responsible for the internal audit function and the control by the Audit Committee of said suitability, at the same time respecting the customary channels for appointing the persons responsible for the various executive areas of the Company.

The above reasons were also stated to the CNMV in July 2008 and have since been reiterated in all the Company's Annual Corporate Governance Reports.

51. The Audit Committee should be empowered to meet with any Company employee or executive, even ordering their appearance without the presence of any other executive.

Complies X Explain

52. The Audit Committee should report to the Board, prior to the adoption by the Board of the corresponding decisions, on the matters indicated in Recommendation 8:

- a) **The financial information that the Company must periodically disclose as a listed company. The Committee should ensure that interim statements are prepared using the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**
- b) **The creation or acquisition of shares in special-purpose vehicles or entities resident in countries or territories that are considered tax havens, and any other transactions or operations of an analogous nature whose complexity could impair the transparency of the Group.**
- c) **Related-party transactions, except where the prior reporting function has been entrusted to some other supervision and control committee.**

See sections: B.2.2 and B.2.3

Complies X Complies partially Explain

53. The Board of Directors should seek to present the financial statements to the Shareholders' Meeting without reservations or qualifications in the



audit report. In the exceptional event that any reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: **B.1.38**

Complies X Complies partially Explain

54. The majority of Appointment Committee members (or Appointment and Compensation Committee members, as the case may be) should be Independent Directors.

See section: **B.2.1**

Complies X Complies partially Explain

55. The Appointments Committee should have the following functions in addition to those stated in earlier Recommendations:

- a) To evaluate the balance of skills, knowledge and experience on the Board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b) To examine or organize, in appropriate form, the process for succession of the Chairman and Chief Executive, making recommendations to the Board so the handover proceeds in a planned and orderly manner.
- c) To report on the appointment and removal of senior executives proposed by the Chief Executive to the Board;
- d) To report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: **B.2.3**

Complies X Complies partially Explain Not applicable

56. The Appointments Committee should consult with the Company's Chairman and Chief Executive, especially on matters relating to Executive Directors.

Any Board member may request that the Appointments Committee take into consideration, if it deems them suitable, potential candidates for any vacant directorships.

Complies X Complies partially Explain Not applicable

57. The Compensation Committee should have the following functions in addition to those stated in earlier Recommendations:



- a) To make proposals to the Board of Directors regarding:
- i) The compensation policy for Directors and senior executives;
 - ii) The individual compensation and other contractual conditions of Executive Directors.
 - iii) The standard conditions for senior executive contracts.
- b) To ensure compliance with the compensation policy set by the Company.

See sections: **B.1.14, B.1.15 and B.2.3**

Complies X Complies partially Explain Not applicable

58. The Compensation Committee should consult with the Chairman and Chief Executive, especially on matters relating to Executive Directors and senior executives.

Complies X Explain Not applicable

G OTHER INFORMATION OF INTEREST

If there is deemed to be any material aspect or principle relating to the corporate governance practices followed by the Company that has not been addressed in this report, please give details.

This section can include any other information, clarification or qualification relating to the previous sections of the Report.

In particular, indicate whether the Company is subject to any legislation other than Spanish legislation on corporate governance, and if so, include any information that it is required to furnish, where such information differs from that required in this Report.

Binding definition of Independent Director

State whether any of the Independent Directors has or has had any relationship with the Company, its significant shareholders or its executives that, had it been sufficiently significant or important, would have resulted in the impossibility of treating the Director as an Independent Director under the definition set forth in section 5 of the Unified Good Governance Code:

YES NO X



Name of Director	Type of relationship	Explanation
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This Annual Corporate Governance Report was approved by the Company's Board of Directors at the meeting held on February 26, 2013, following a favourable report from the Audit Committee and from the Corporate Responsibility and Governance Committee at meetings held on February 19 and 20, 2013, respectively.

Indicate whether there are any Directors who voted against or abstained from voting to approve this Report.

YES NO

Name of Director who did not vote to approve this Report	Reason (against, abstained, absence)	Explain the reasons

Other information of interest:

Compensation for the Board of Directors and Senior Management

In addition to the information contained in sections B.1.11 to B.1.16 of this Report, it should be noted that this year the Company intends to prepare a report on Director compensation at Red Eléctrica Corporación, S.A, taking into account, insofar as the report structure and content are concerned, the new Article 61.ter of the Securities Market Law, the reporting requirements and demands of foreign international investors and their advisers, and cutting-edge corporate governance practices in Spain and abroad in this area.

The abovementioned report offers detailed information on the year ended December 31, 2012, and on 2013 and subsequent years.

- Board of Directors

The total compensation earned by members of the Company's Board of Directors in 2012, in thousands of euros, broken down by Director, was as follows:

	Fixed compensation	Variable compensation	Attendance fees for Board Meetings	Committee activities	Life insurance and pension plan contributions	Other remunerations	Total	Remaining as Director during 2012
José Folgado Blanco ⁽¹⁾	325	245	71	9	-	-	650	Until 8 March, Independent Director; since then, Executive Director
María de los Ángeles Amador Millán	-	82	71	29	-	-	182	All fiscal year 2012



Miguel Boyer Salvador	-	82	71	-	-	-	153	All fiscal year 2012
Rui Manuel Janes Cartaxo	-	82	71	-	-	-	153	All fiscal year 2012
Fernando Fernández Méndez de Andés	-	57	40	20	-	-	117	Since 19 April 2012
Paloma Sendín de Cáceres	-	57	40	20	-	-	117	Since 19 April 2012
Carmen Gómez de Barreda	-	57	40	20	-	-	117	Since 19 April 2012
Juan Emilio Iranzo Martín	-	57	40	20	-	-	117	Since 19 April 2012
María José García Beato	-	7	5	-	-	-	12	Since 29 November 2012
Alfredo Parra García-Moliner ⁽²⁾	-	57	40	18	-	-	115	Since 19 April 2012
Francisco Ruiz Jiménez ⁽²⁾	-	57	40	-	-	-	97	Since 19 April 2012
Luis María Atienza Serna ⁽³⁾	77	55	15	5	4	-	156	Until 8 March 2012
Francisco Javier Salas Collantes ⁽³⁾	-	34	40	-	-	-	74	Until 31 May 2012
Antonio Garamendi Lecanda ⁽³⁾	-	24	31	9	-	-	64	Until 19 April 2012
Rafael Suñol Trepát ⁽³⁾	-	13	10	-	-	-	23	Until 27 February 2012
Arantza Mendizábal Gorostiaga ⁽³⁾	-	24	31	9	-	-	64	Until 19 April 2012
María Jesús Álvarez ⁽²⁾⁽³⁾	-	24	31	9	-	-	64	Until 19 April 2012
Manuel Alves Torres ⁽²⁾⁽³⁾	-	24	31	9	-	-	64	Until 19 April 2012
Non-distributed amounts corresponding to vacancies in the Board	-	-	-	-	-	61	61	
Total accrued compensation	402	1.038	718	177	4	61	2.400	

⁽¹⁾ The amounts accrued to José Folgado Blanco for Committee membership relate to the period in which he was an independent external director of the Company.

⁽²⁾ Amounts accrued to Sociedad Estatal de Participaciones Industriales (SEPI).

⁽³⁾ No longer a member of the Board of Directors at December 31, 2012.

The annual variable compensation of the Executive Director is established by the Corporate Responsibility and Governance Committee at the start of each year using quantifiable and pre-determined objective criteria. The targets are in line with the strategies and steps established in the Company's Strategic Plan and the Corporate Responsibility and Governance Committee is also responsible for assessing the level of achievement of the targets.

In 2009, an Executive Compensation Plan (2009-2013 "Plan Extraordinario 25th aniversario") was established, including the Executive Director, linked to the 25th anniversary of the Company, as a management tool and an incentive to drive fulfilment of the five-year Strategic Plan. Compliance with the Plan will be assessed at the end of its term in 2014. Depending on the level of achievement of the targets set, the overall assessment for the five years may be up to 1.8 times the fixed annual compensation. As with the annual targets, this plan takes into account quantifiable and pre-determined objective criteria which are in keeping with the medium and long-term vision of the Company's Strategic Plan. The establishment and assessment of the targets falls to the Corporate Responsibility and Governance Committee. At December 31, 2012 the Company has recorded an accrual proportional to the period elapsed under the assumption that the targets set in the Plan will be met in 2013. This accrual will not be recognized individually as compensation until compliance with the Plan in 2014 is



assessed, or failing this, if prior to that date the relationship between the Company and the Executives included in the program ends, for the causes envisaged in the Plan.

In 2012, costs associated with the departure of the former Chief Executive were recognised amounting to 2.3 million euros. This includes accrual of the corresponding part of the aforementioned executive compensation plan (“Plan Extraordinario 25th aniversario” 2009-2013).

At December 31, 2012 and 2011 there were no loans, advances or guarantees established by the Company in favour of members of the Board of Directors reflected on the balance sheet. There were also no pension liabilities incurred vis-à-vis members of the Board of Directors at those dates.

In 2012 and 2011, the members of the Board of Directors were not involved in operations with the Company or any Group companies, either directly or through persons acting on their behalf that might fall outside the ordinary course of business or that might not be under normal market conditions.

- Senior Management:

In 2012, compensation to senior executives under all headings amounted to 1,023 thousand euros (1,023 thousand euros at 31 December 2011).

In 2012, compensation to these senior managers amounted to 996 thousand euros (966 thousand euros in 2011) and contributions to life insurance and pension plans amounted to 27 thousand euros (57 thousand euros in 2011).

The senior directors who rendered services throughout 2011 and 2012 are detailed below:

Name	Position
Carlos Collantes Pérez-Ardá	Director-General of Transmission
Esther M ^a Rituerto Martínez ⁽¹⁾	Director-General of Administration and Finance
Andrés Seco García	Director-General of System Operation
Alberto Carbajo Josa ⁽¹⁾	Director-General of System Operation

⁽¹⁾ Left the company in 2012.

There were no loans or advances to senior executives at December 31, 2011 or 2012.



In 2009, an Executive Compensation Plan (2009-2013 “Plan Extraordinario 25th aniversario”) was established, linked to the 25th anniversary of the Company, as a management tool and an incentive to drive fulfilment of the five-year Strategic Plan. Compliance with the Plan, which includes the senior executives, will be assessed at the end of its term in 2014. Depending on the level of achievement of the targets set, the overall assessment for the five years may be up to 1.8 times the fixed annual compensation. As with the annual targets, this plan takes into account quantifiable and pre-determined objective criteria which are in keeping with the medium and long-term vision of the Company’s Strategic Plan. The establishment and assessment of the targets falls to the Corporate Responsibility and Governance Committee. At December 31, 2012 the Company has recorded an accrual proportional to the period elapsed under the assumption that the targets set in the Plan will be met in 2013. This accrual will not be recognized individually as compensation until compliance with the Plan in 2014 is assessed, or failing this, if prior to that date the relationship between the Company and the Executives included in the program ends, for the causes envisaged in the Plan.

In 2012, costs associated with the departure of two senior executives during the year were recognised amounting to 2.2 million euros. This includes accrual of the corresponding part of the aforementioned executive compensation plan (“Plan Extraordinario 25th aniversario” 2009-2013).

For further information, please see the aforementioned Annual Directors’ Compensation Report, which will be available shortly.

Professional experience of the Executive Director and the External Nominee Directors

In addition to the information provided in section B.1.3, which, together with other information, provides a brief summary of the profile and professional career of each of the External Independent Directors on the Board of Directors, and in order to make available to all the Shareholders similar information on the other members of the Board of Directors of Red Eléctrica Corporación, S.A, set out below is the same information regarding the Executive Director and the External Nominee Directors:

	<p>Chairman, Executive Director</p> <p>José Folgado Blanco, born April 3, 1944.</p> <p>Degree in Economics. Final-year award with special distinction. Doctorate in Economics, Universidad Autónoma de Madrid.</p> <p><i>Formerly:</i></p>
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	<p>Head of the economics department of the CEOE.</p> <p>Member of the Economic and Social Board representing business organizations.</p> <p>Secretary of State for Budgets and Expenditure. Ministry of Economy and Finance, from May 1996.</p> <p>Secretary of State for Economy, Energy and Small and Medium-Sized Enterprises. Ministry of Economy, from April 2000.</p> <p>Secretary of State for Energy, Industrial Development and Small- and Medium-Sized Enterprises. Ministry of Economy, since July 2002.</p> <p>Parliamentary representative of the province of Zamora and Deputy Chairman of the Economy and Finance Committee, since March 2004.</p> <p>Mayor of Tres Cantos (Madrid) since June 2007.</p> <p><i>Currently:</i></p> <p>Tenured Professor of Public Finance and Tax Systems, Universidad Autónoma de Madrid.</p> <p>Member of the Social Board, Universidad Autónoma de Madrid.</p>
	<p>External Nominee Director proposed by Sociedad Estatal de Participaciones Industriales (SEPI)</p> <p>Alfredo Parra García-Moliner, born December 22, 1971.</p> <p>Law Degree, Universidad de Leon.</p> <p>Member of the National College of State Lawyers, graduating top in 1997.</p> <p><i>Formerly:</i></p> <p>State Attorney in the Courts and Tribunals of Madrid.</p> <p>State Attorney in the Government Attorney's Office, State Legal Service Department, General Litigation Services Division.</p> <p>State Attorney Coordinating Legal Assistance to the Nuclear Safety Council.</p> <p>State Attorney Coordinating Legal Assistance to the Instituto Cervantes.</p> <p>State Attorney-Head in the Ministry of Foreign Affairs and Aid.</p> <p>Member of the Committee for the Reform of the Foreign Service.</p> <p>Secretary of the Administrative Council of the State Corporation for Spanish Cultural Action Abroad, created by agreement of the Ministerial</p>



	<p>Cabinet for the organisation and management of international exhibitions and related activities.</p> <p>Director of Legal Services for Corporación Radio y Televisión Española, S.A.</p> <p>Author of a number of legal articles and publications.</p> <p><i>Currently:</i></p> <p>General Secretary and Director of Sociedad Estatal de Participaciones Industriales (SEPI)</p>
	<p>External Nominee Director proposed by Sociedad Estatal de Participaciones Industriales (SEPI)</p> <p>Francisco Ruiz Jiménez, born January 26, 1975.</p> <p>Graduate in law from the Universidad Pontificia de Comillas (ICADE E-1). Diploma in Company Consultancy from the Universidad Pontificia de Comillas (ICADE E-1). Auditor. Real estate agent.</p> <p><i>Formerly:</i></p> <p>Worked with the legal chambers of Ignacio Izquierdo del Valle. Employed by Caja de Ahorros y Pensiones de Barcelona, "La Caixa". Inspector of Credit Entities for the Banco de España's Supervision Department, with a range of responsibilities from 2003 to 2012. Lecturer in Accounting and the Spanish Financial System at the Centro de Estudios Financieros. Lecturer in finance and accountancy on a number of postgraduate courses at the Centro de Estudios Financieros. Conference speaker on issues relating to the financial system.</p> <p><i>Currently:</i></p> <p>Director General of the Sociedad Estatal de Participaciones Industriales (SEPI).</p>



	<p>External Nominee Director proposed by Sociedad Estatal de Participaciones Industriales (SEPI)</p> <p>Fernando Fernández Méndez de Andés, born February 10, 1956.</p> <p>Doctorate in Economics, Universidad Autónoma de Madrid.</p> <p>Lecturer in Economics and Director of the International Financial System Chair at the IE Business School, specialising in Macroeconomics, the International Economy and Financial Stability.</p> <p><i>Formerly:</i></p> <p>Principal Economist at the International Monetary Fund.</p> <p>Chief Economist and Director of Research Service at Banco Central Hispano (BCH) and Banco Santander.</p> <p>Rector of the Universidad Europea de Madrid and the Universidad Antonio de Nebrija.</p> <p>Director of the European Business Programme.</p> <p>Member of the Executive Committee of the Association for European Monetary Union.</p> <p>Member of the Economists Council of Conference Board, Europe.</p> <p>Member of the Permanent Committee of Head Economists at the Instituto Internacional de Finanzas and the Grupo de Trabajo en Prevención y Resolución de Crisis (Crisis Prevention and Resolution Working Group), during the 1999-2002 Latin American debt crisis.</p> <p>Member of the Executive Committee of the Instituto de Estudios Económicos.</p> <p>Member of the Technical Group on Financing Emerging Economies at the Ministry of Economics and Commerce.</p> <p>Collaborator with the Instituto de la Mujer (Women's Institute)</p> <p><i>Currently:</i></p> <p>International consultant on macroeconomic, regulatory and financial issues.</p> <p>Chairman of Pividal Consultores and Associate Director of DFC.</p> <p>External Advisor to the Strategy Committee of the Grupo Financiero Arcano.</p> <p>Collaborator with the Fundación de Estudios Financieros.</p> <p>Frequent economic commentator and columnist in the media.</p>
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	<p>Frequent speaker at international conferences and events related to his professional and academic activity, and the author of numerous related articles and publications.</p> <p>Independent director of Bankia, S.A.</p>
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Director attendance at meetings

There were eighteen (18) absences from the fourteen (14) Board meetings held in 2012, representing an attendance rate of 87.3%.



ANNEX 2

ADDITIONAL INFORMATION FOR ARTICLE 61 BIS OF SECURITIES MARKET LAW 24/1988, OF JULY 28, 1988

I. Information about securities that are not traded on an official market in the EU, stating, whenever appropriate, the different classes of shares and the rights and obligations pertaining to each class of shares and the percentage of the capital it represents, as well as the percentage of capital represented by the company's treasury stock and any major changes therein (art. 61 bis 4, a, 3 LMV).

None of the Company's shares are traded on an official market in the EU.

The percentage of the capital accounted for by the treasury stock held by the company is 0.307% and major changes in this figure are set out in sections A.8 and A.9 of the Annual Corporate Governance Report.

II. Any restriction on the transferability of securities and any restriction on voting rights (Article 61 bis 4, b LMV).

The transfer of the shares representing the capital of Red Eléctrica Corporación, S.A. is free and is not subject to any restriction.

As for all listed entities, the acquisition of certain significant holdings must be notified to the issuer and to the CNMV, as provided in Article 53 of Securities Market Law 24/1988 of July 28, 1988, in Royal Decree 1362/2007 of October 19, 2007, and in CNMV Circular 2/2007 of December 19, 2007, which establish the first notification threshold at 3% of capital or voting rights.

Each share gives the right to one vote and all shareholders are entitled to attend Shareholders' Meetings, without any required minimum number of shares, as was the case until the Special Shareholders' Meeting of July 17, 2003, which removed the bylaw requirement to hold at least 50 shares in order to attend Shareholders' Meetings.

Royal Decree-Law 13/2012, of March 30, incorporated a number of Directives into Spanish law. One of these was Directive 2009/72/EC of July 13, 2009, which proclaims the mandatory independence of transmission companies and operators of European electricity systems. This endorsed the legal limits on holdings and voting rights applicable to the Company's shareholders, including some further restrictions on companies involved in generating and resale. Royal Decree-Law 13/2012, of March 30, modified Additional Provision Twenty Three of the Electricity



Industry Law and article 34.1 of Law 54/1997, of November 27, on the Electricity Industry.

The shareholding limits established in the new draft of Additional Provision Twenty Three of Law 54/1997, of November 27, on the Electricity Industry, continue to be basically the same as previously established, with some added limitations for generators and resellers:

- 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 capital and they do not exercise more than 3% of voting rights. These shares may not be pooled for any purpose whatsoever.
- Parties that engage in activities in the electricity industry, and those individuals or legal entities that directly or indirectly hold more than 5% of their capital, may not exercise more than 1% of voting rights, without prejudice to the limitations established in article 34.2 of the Electricity Industry Law for generators and resellers.
- The special regime for Sociedad Estatal de Participaciones Industriales (SEPI) is maintained, whereby it must hold at least ten percent (10%) of capital in all cases.

These legal provisions on the general and special shareholding regime are incorporated in articles 5 and 14 and the Sole Additional Provision of the Corporate Bylaws, and in article 6.3 of the Regulations of the Shareholders' Meeting.

There are no other additional bylaw restrictions differing from purely legal restrictions.

Law 1/2012, of June 22, 2012, simplifying the information and documentation for mergers and spin offs of corporate enterprises, redrafts certain aspects of the Corporate Enterprises Law, affecting regulation of certain aspects relating to the possibility of introducing bylaw restrictions on voting rights, after these were expressly prohibited for listed companies by Law 12/2010, of June 30 (article 527 LSC). This does not affect the Company, as it sets out a general regime for listed companies, whereas the Company is subject to the limitations set out in the aforementioned Law 54/1997, of November 27, on the Electricity Industry.

In turn, the National Energy Commission is authorized to take legal action to enforce the aforementioned statutory limits. Breach of the established shareholding limits constitutes a very serious infringement under the Electricity Industry Law and the individuals or legal entities that own the securities or to whom the excess shareholding is attributable will be liable.

III. Information about the rules applying to the altering of the Corporate Bylaws (Article 61 bis 4, a, 4 LMV).

The amendment of the Corporate Bylaws introduces no new features other than the corporate legal system provided for in Article 290 of the Corporate Enterprise Law and which requires approval by the Shareholders' Meeting, with the majorities provided for in Article 194 of said Law. The competencies of the Shareholders'



Meeting set out in Article 11 c) of the Corporate Bylaws and Article 3 c) of the Regulations of the Shareholders' Meeting, expressly include the amendment of the Corporate Bylaws, without stipulating any majority other than those set out in the Law.

IV. Information about the major agreements entered into by the Company that come into force, are changed or terminate in the event that the control of the Company changes as a result of a tender offer, and its effects, except when disclosing them would seriously damage the company's interests. This exception shall not apply when the company is legally required to disclose this information to the public (Article 61 bis 4, c, 4 LMV).

The Company has not entered into any agreements that come into force, are changed or terminate in the event of a change in control of the Company as a result of a tender offer for the shares.

V. Information about agreements between the company and its managers, executives or employees which provide for indemnification in the event of their resignation or unjustified dismissal or in the event that the employment relationship ends as a result of a tender offer (Article 61 bis 4, c, 5 LMV).

The contract of the current Executive Director was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's Board of Directors. In accordance with common market practices, this contract includes indemnification equal to one year's compensation in the event of termination of the mercantile relationship through dismissal or change of control.

There are safeguard or golden parachute clauses for members of the Company's current senior management. These clauses are in line with standard market practices and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless the applicable legislation provides for a higher amount. The contracts containing these clauses were approved by the Appointments, Compensation and Corporate Responsibility and Governance Committee and they were duly notified to the Board of Directors.

VI. Information about the powers of the members of the Board of Directors and, in particular, those relating to the possibility of issuing or buying back shares (Article 61 bis 4, c, 3 LMV).

The Corporate Enterprises Law (LSC) consolidated the legal regime applicable to the treasury stock of companies established in Law 3/2009, of April 3, 2009, on Structural Modifications to Commercial Companies, without introducing any material amendments to the regime.

In light of the foregoing, and although the authorization approved by the Shareholders' Meeting on May 20, 2010, in relation to the award of treasury shares, as compensation, to employees of the Company and of the RED ELÉCTRICA Group, was still in force, pursuant to the law, for another four years, it was submitted for approval to the Annual Shareholders' Meeting held on April 13, 2011. A further proposal to award treasury



shares, as compensation, to employees of the Company and of the RED ELÉCTRICA Group for a further five years was subsequently submitted to the Annual Shareholders' Meeting held on April 19, 2012, despite the previous authorisation still being in force for a further four years. It was intended that the shareholders renew the authorization granted last year, in accordance with the most recent corporate governance practices. As a separate item on the agenda, it was also intended to establish a Compensation Plan for members of Senior Management and the Executive Directors of Red Eléctrica Corporación, S.A, which may be extended to companies in its Consolidated Group, allowing part of their compensation to be awarded in the form of Company shares, on the same terms as in the previous years. This Plan requires a resolution with certain legally established conditions.

Accordingly, the Shareholders' Meeting of the Company held on April 19, 2012, gave an authorization, pursuant to the provisions of Article 146 and related provisions of the Corporate Enterprises Law and other applicable legislation, for the derivative acquisition of treasury stock in Red Eléctrica Corporación, S.A. by the Company itself and by companies of the Red Eléctrica Group directly or indirectly and insofar as the Board of Directors considers that the circumstances so dictate, subject to the following conditions:

- The maximum number of shares to be acquired must not exceed the established legal limit, provided that the other applicable legal requirements can also be fulfilled.
- Acquisitions cannot be made for a consideration higher than the market value of the shares at the time of acquisition, or for a consideration lower than 50% of the market price at that time.
- The methods of acquisition may consist of sale and purchase, swap or any other type of transaction for consideration or for no consideration, as the circumstances so dictate. In the case of acquisition for no consideration, pursuant to the provisions of Article 146.4 of the Corporate Enterprises Law, the shares acquired may be partially paid-in.
- Pursuant to the provisions of Article 146.1 b) of the Corporate Enterprises Law, the acquisition, including any shares previously acquired by the Company and held as treasury stock, may not have the effect of leaving net worth below the amount of capital stock plus legal reserves or restricted reserves pursuant to the bylaws.

For these purposes, 'net worth' will be considered the amount classed as such pursuant to the criteria used to prepare the financial statements, reduced by the amount of income attributed directly to same and increased by the amount of uncalled subscribed capital stock, as well as by the nominal amount and the subscribed additional paid-in capital recorded for accounting purposes as shareholders' equity.



In accordance with paragraph three of Article 146.1 a) of the Corporate Enterprises Law, the Board of Directors of the Company may use some or all of the treasury stock acquired under this authorization and the treasury stock already owned by the Company on the date of approval of this resolution to implement compensation programs consisting of the direct award of shares to employees and Executive Directors of the Company and of the companies belonging to the Red Eléctrica Group.

For all of the foregoing, an authorization as broad as may be necessary is granted to the Board of Directors to request all such authorizations and adopt all such resolutions as may be necessary or appropriate for compliance with the legislation in force, and the implementation and successful outcome of this resolution.

The term of this authorization will be five (5) years as from the date of this Shareholders' Meeting.

The Shareholders' Meeting expressly revoked and, therefore, rendered ineffective the authorization for the derivative acquisition of treasury stock given to the Board of Directors by the Shareholders' Meeting held on April 13, 2011.

The Shareholders' Meeting held on May 20, 2010, delegated to the Board of Directors, for a period of five (5) years, the power to increase capital, at any time, on one or more occasions, up to a maximum amount of one hundred and thirty-five million, two hundred and seventy thousand euros (€135,270,000), equal to half of the current capital, in the amount and at the issue price decided on in each case by the Board of Directors, with the power to exclude, in whole or in part, the pre-emptive subscription right and with express authorization to redraft, as the case may be, Article 5 of the Corporate Bylaws and to request, as the case may be, the admission, continued listing and/or delisting of the shares on organized secondary markets.

The Shareholders' Meeting held on May 20, 2010, also delegated to the Board of Directors, for a period of five (5) years, and with a combined limit of five thousand million euros (€5,000,000,000), powers to issue, on one or more occasions, directly or through companies of the Red Eléctrica Group, debentures, bonds and other fixed-income instruments or debt instruments of an analogous nature, both nonconvertible and convertible or exchangeable for shares of the Company, of other companies of the Red Eléctrica Group or of other companies not related to same, including, without limitation, promissory notes, securitization bonds, preferred participations and warrants giving entitlement to the delivery of shares of the Company or of other companies of the Red Eléctrica Group, whether newly-issued or in circulation, with the express power to exclude, in whole or in part, the pre-emptive subscription right; authorization to enable the Company to secure new issues of fixed-income securities (including convertible or exchangeable securities) made by companies of the Red Eléctrica Group; authorization to redraft, as the case may be, Article 5 of the Corporate Bylaws and to request, as the case may be, the admission, continued listing and/or delisting of the shares on organized secondary markets.



The Annual Shareholders' Meeting held on April 19, 2012, April 13, 2011, and May 20, 2010, adopted resolutions to delegate powers to members of the Board of Directors to implement all of the Resolutions adopted by the Annual Shareholders' Meeting. The Resolution states: *"Without prejudice to the authorizations expressly conferred by the Shareholders' Meeting on the Board of Directors, the broadest powers are delegated to the Chairman and to each member of the Company's Board of Directors, as well as the Secretary and Deputy Secretary of the Board, so that they may exercise them, individually, with a view to the implementation, execution and registration of each and every one of the resolutions adopted by this Shareholders' Meeting, including the signature of the corresponding contracts and documents, with the clauses and conditions they deem appropriate, and interpret, remedy and complete the aforementioned resolutions and have them notarized, according to their effectiveness and the comments of any body or authority, in particular the oral or written comments of the Mercantile Registrar, performing all such steps as may be necessary or appropriate to ensure their successful outcome and, in particular, to ensure the registration at the Mercantile Registry of the registrable resolutions."*

Furthermore, Article 25 of the Corporate Bylaws stipulates that the Chairman of the Board of Directors is the Chairman of the Company and of all its governing and administrative bodies, and he has the job of ensuring that the resolutions of the Board of Directors, which he represents on a permanent basis, are implemented. The power to represent the Company, in and out of court, is held by the Chairman of the Company, in addition to the Board of Directors. The Chairman of the Company is the senior manager of all the Company's services and signs for, administers and represents the Company in all matters, in and out of court, and is authorized to adopt, for reasons of urgency, the measures he deems appropriate in the interests of the Company, but must immediately report on such measures to the Board of Directors.

In this regard, at its meeting on April 26, 2012, the Company's Board of Directors unanimously agreed: *"To delegate to the Chairman of the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A., Mr. José Folgado Blanco, pursuant to the provisions of Article 249 of the current Corporate Enterprises Law, Article 149 of the Mercantile Registry Regulations, Article 22 of the Corporate Bylaws and Article 5 of the Regulations of the Board of Directors, all powers of the Board of Directors that may be delegated by law and pursuant to the Bylaws."*

In addition to the powers that have been expressly delegated to him, the Chairman is authorized by the Corporate Bylaws to adopt, for reasons of urgency, the measures he deems appropriate in the interests of the Company, immediately informing the Board of such measures and reporting regularly to the Board, at its ordinary meetings, on the corporate management of the different areas of the Company, requesting, as the case may be, approval of the resolutions submitted. The creation, in 1999, of the Audit Committee and the Appointments, Compensation and Corporate Governance Committee (now called the Corporate Responsibility and Governance Committee), entirely composed of members of the Board of Directors specializing in matters within their sphere of responsibility, exercises specific oversight over the basic and strategic responsibilities of the Company, which in no case will be performed exclusively by the Chairman.



Notwithstanding the powers delegated to the Chairman, in practice, it is the Board of Directors meeting in plenary session that adopts the strategic and significant decisions for the Company.

VII. Description of the major features of the internal control and risk management systems in connection with the process of financial reporting (Article 61 bis 4, h LMV).

The Red Eléctrica Group (for the purposes of this section REE) has, as part of its internal control systems, a System for Internal Control of Financial Reporting (hereinafter referred to as ICFR), for the purposes of meeting the requirements imposed with regard to the reliability and transparency of the process of generating financial information. REE's ICFR is in line with the standard legal references in the area of internal control (including those relating to the COSO framework). It has also followed the recommendations included in the "Report on the System for Internal Control of Financial Reporting" drawn up by the Internal Control Working Group on financial reporting at financial institutions set up by the National Securities Market Commission (CNMV), which defines a set of principles and best practices grouped into 5 components and detailed in 16 indicators.

Adequate functioning of the ICFR assumes, amongst other aspects, recording of all economic events that occur, incorporating the effects of these whilst assessing them pursuant to applicable legislation.

The ICFR in place at REE involves the entire Organization by implementing and monitoring on a regular basis the functioning of different controls in the area of the generation of financial information. This ICFR dates back to 2008 as part of a voluntary project. It has adapted to all legislative requirements, and has been independently reviewed since 2008.

The basic structure of REE's ICFR is formally documented in the "REE ICFR Manual". The main elements characterizing the ICFR are set out below:

- General controls: transversal controls throughout the entire organization which, as applicable, have a particular use at the level of the REE ICFR. Connected with these general controls, there are the "*indicator assessment items*" (IAIs) which provide a broader picture of the area of overall control in the ICFR.
- Controls designed in the processes, deployed in:
 - Areas affected by the ICFR:
 - Acquisitions.
 - Fixed Assets.
 - Inventories.
 - Revenues.
 - Payroll and Staff.
 - Financial Management.
 - Support Services.
 - Financial Reporting.



- 26 formally documented cycles.
- 45 formally documented sub-cycles.

All of these areas, cycles and sub-cycles have been formally documented in the Corporate Modeller computer tool. This tool facilitates administration of all the agents involved through a web environment to which the agents have access.

Mechanisms that make up the control and risk management systems in connection with the financial reporting process (ICFR) of the entity.

1. The entity's control environment

1.1 Bodies and/or functions responsible for: (i) the existence and upkeep of an adequate, effective ICFR; (ii) its implementation and (iii) its supervision.

REE's control environment has been designed on the basis of various different elements that make for an internal control atmosphere that favours the generation of full, reliable and appropriate financial information, anticipating, as necessary, the possible existence of irregularities and/or errors in order that they may be remedied. There are therefore specific Departments, Corporate Bodies and organizational units that develop, maintain and supervise everything connected with the model in the area of the entire process of preparing financial information.

Specifically, the defined functions of the Board of Directors (according to Article 5.6 vii) of the REE Regulations of the Board of Directors) include: the *"approval of the policy for control and management of the principal risks of the Company and of the Group, and knowledge and periodic monitoring of internal control, prevention and reporting systems. The risk control and management policy shall identify at least the following: the different kinds of risk (operating, technological, financial, legal, reputational, etc.) the Company and the Group are exposed to, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks; the determination of the risk level the Company deems to be acceptable; the measures in place to mitigate the impact of the identified risks, should they occur; and the internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks."*

Further to the explanations given in section 1.2, there are different organizational levels at REE that are in charge of maintaining, implementing and supervising the ICFR.

In this regard, of note are the steps taken by the Corporate Economic and Financial Department, as the area responsible for designing, implementing and operating the ICFR and ensuring that it is efficient and up-to-date, and by Internal Audit, which, with delegated responsibility from the Audit Committee and through its annual action plan, helps to assess the efficiency of the ICFR and periodically reports any weaknesses detected.



Finally, the different organizational units of the Group are jointly responsible for the controls defined for their areas of responsibility, ensuring they are designed and operate effectively.

1.2 List of existing items relating to the financial reporting process.

- **Departments and/or mechanisms in charge of: (i) designing and reviewing the organizational structure; (ii) clearly defining the lines of responsibility and authority, with a suitable distribution of tasks and duties and (iii) ensuring there are appropriate procedures for it to be properly implemented throughout the company, in particular, in connection with the financial reporting process.**

REE's Corporate Affairs Division, through its Human Resources Department, is responsible for defining the basic structure of the organization, defining the different levels of authority and the consequent levels of responsibility. All of this aims to maintain a design an organisational structure, that is implemented, reviewed and updated constantly.

In addition, the Corporate Economic and Financial Department, the Corporate Affairs Division, the Corporate Communication and Corporate Responsibility Department, and the Office of the Secretary General to the Board of Directors take an active part in helping to draw up other benchmark internal documents, such as the "Revised Text of the Corporate Bylaws", the "Internal Code of Conduct on the Securities Markets", the "Corporate Responsibility Manual" and the "Code of Ethics and Corporate Values" which, among other aspects, further define the general framework of the organizational structure, at the level of duties and of responsibilities. As a complement to these benchmarks for internal rules, the ICFR Action Guide attributes the special characteristics that may be required in the area of the System for Internal Control of Financial Reporting, including the functions of maintaining, updating and supervising the ICFR at each of the different levels of responsibility that have been described, emphasizing that the Corporate Economic and Financial Department has delegated some of its tasks to the Economic Department and to the Accounting Information and Administration Department.

Moreover, additional rules and regulations have been defined that are binding at the level of the main corporate bodies, and at the level of senior management, together with compulsory procedures at the different stages that are performed throughout the tasks relating to preparing, reviewing and approving the closing of the Financial Statements of the companies that belong to REE.

This entire structure is aimed at ensuring, inter alia, that the organizational structure set up provides a sound model in the ICFR environment.

- **Code of conduct, approving body, degree of disclosure and instruction, principles and values included (stating whether there are any specific mentions of the recording of operations and preparation of financial**



information), the body tasked with analyzing any breaches and proposing corrective measures and penalties.

An appropriate framework of conduct, setting specific values and guidelines for action, reinforces the basis for achieving the objective of reliable and transparent financial information.

In this regard, at REE, there are elements that refer to the "Internal Rules of Conduct in the Securities Markets", "Code of Ethics and Corporate Values" and "Corporate Responsibility Policies of Red Eléctrica de España S.A.U.", which set the ethical values and principles of the Company as regards compliance with law, integrity, responsibility and transparency, use of data and of the information systems, among others. With the aim of achieving the highest level of rigor among REE employees, the Company has implemented a system for detecting and handling breaches and reports of breaches of the code of ethics that is completely anonymous, with a view to informing senior management of any improper practices, among other aspects, connected with the processes for preparing financial information. REE ensures that any reports made remain entirely anonymous.

The "Code of Ethics and Corporate Values" is approved by REE's Board of Directors and is incumbent upon everyone at REE in the exercise of their functions and responsibilities in all professional areas in which they represent the Company, this being understood to include the employees, executives and directors. These individuals receive a copy of the "Code of Ethics and Corporate Values", together with appropriate training, either by attending courses and/or distance training, which is also permanently available in the internal rules and on the corporate website.

The "Code of Ethics and Corporate Values" is reviewed on a regular basis in order to bring its requirements into line with the needs of the Company and its relationship with the environment and with its stakeholders.

The "Code of Ethics and Corporate Values" sets out the following aspects relating to economic and financial information:

- Chapter I Description of the values, including, among others, the following:
 - *“Visible commitment to society, indicating that: the companies in the Group shall engage in actions and projects that reduce the problems and needs of society in a transparent way, so that the development and economic growth of the business is in harmony with that of society.*
 - *Pride of belonging: involvement in the business project, assuming the vision, strategies and policies of each company in the Group, loyalty, trust in the management carried on and a responsible attitude involved in protecting the company's interests, strengthens its value and conveys an image of a united, firm, consolidated business.*



- *Focus on constant improvement: the commitment to excellence in management is supported by efficient systems and processes, systematically seeking out improvements, identifying and applying best practices, internally analyzing the results obtained and studying the position and development of the company with regard to the industry and the markets. The integrated, prioritized management of these activities is the main channel for ensuring the permanence and growth of the companies in the Group in the industries in which they operate. The competencies and capacities of the companies in the Group are key factors that need to be developed, both by the directors and executives of the Group and by its workers (training, detection of best practices and technological advances).*
- *Quality and service to stakeholders: stakeholders are groups or entities that are or may be affected by the services or activities of the business and others whose opinions or decisions affect the economic results or the reputation of the companies in the Group. Product development and presentation of the services of the company should be aimed at achieving satisfaction among stakeholders. This factor is the main platform for achieving excellent results and for the positive development of the Group in the short, medium and long term”.*
- **Channel for reporting financial and accounting irregularities to the Audit Committee, in addition to any breach of the code of conduct and any irregular activities at the organization, stating, as applicable, if it concerns a confidential matter.**

In this regard, Chapter IV of the "Code of Ethics and Corporate Values" establishes in detail: System for detecting and handling breaches and reports of breach of the code of ethics, setting out the procedure to be followed in order to make any kind of notification under the following premises:

“The system for receiving and handling any breaches and reports of breach of the Code of Ethics shall be administered by the Ethics Manager, in collaboration with the Chairman and the chairmen of the Audit Committee and Appointment and Compensation Committee. This individual shall be appointed by the Chairman of the Company and shall act independently and report to the Management Committee at the end of each financial year in the manner and as often as is stipulated in the management process.

Any employee of the Group or any stakeholder may report any alleged breaches of the Code of ethics that he or she detects at any of the companies in the Group or by any employee.

Reports shall preferably be submitted electronically. In the "Corporate Responsibility" section of the website of each company there will be a channel that may be used to send reports to the Ethics Manager electronically, without the company knowing.



The Ethics Manager will analyze the information submitted, request the relevant evidence and, whenever appropriate, submit dossiers with all the information he possesses to the Chairman. If the report concerns any member of the Management Committee or of the Board of Directors, it shall be submitted to the chairman of the Audit Committee or, as the case may be, to the chairman of the Appointments and Compensation Committee.

In order for a report to be received and accepted as valid, the following elements are required:

- *Full name of the reporting party with identity number or corresponding identification code.*
- *True and accurate evidence or arguments to support the report.*
- *Person or group reported (including the business as a whole).*

The system shall ensure that there are no reprisals and that confidentiality is assured in all stages. The Ethics Manager shall sign a confidentiality agreement which, should it be breached, may lead to claims for damages as deemed appropriate, and shall be answerable to the relevant judicial bodies.

However, reports that do not include the identity of the reporting party may also be assessed and handled, if the evidence submitted and the subsequent investigation proves that there has been an actual breach.”

- **Training and regular refresher programs for the staff involved in preparing and reviewing the financial information, and in the assessment of the ICFR, which cover at least, accounting policies, auditing, internal control and risk management.**

In this regard, the Human Resources Department, based on the training plan prepared by the relevant Department, manages and plans all matters concerning training programs and other support items for all REE staff and, in particular, items connected with specific training in accounting subjects, internal control and risk management, which are organized for staff in the Accounting Information and Administration, Internal Control and Internal Audit units, as required.

In the first instance, the various training programs are coordinated with the units that request them, and are then proposed and subsequently approved to be carried out in the current year.

Ongoing checks are carried out, at both department and employee level, assessing the number of training hours accumulated throughout the year.



Among the subjects taught to staff, the following training programs are particularly noteworthy: “New National Chart of Accounts”, “International Financial Reporting Standards”, “Analysis of Financial Statements”, “Systems for internal control over financial reporting”, etc.

2. Assessment of risks of the financial information

- **Major features of the process for identifying risks, including error or fraud.**

The risk identification process is one of the fundamental cores underlying analysis of the risks associated with the process of preparing financial information. Resting on this core are the "Integrated Risk Management Group Policies" which serve as a reference point in this connection, since they set out the guiding principles by which the Company may effectively deal with uncertainty, its associated risks and opportunities, thereby improving the ability to generate value and facilitating the achievement of the Organization's goals, such as the reliability of the financial information.

In this connection, *“The purpose of the REE Risk Policy, approved by the Board of Directors on July 24, 2008, is to establish principles and guidelines to ensure the systematic identification, analysis, assessment, management and control of material risks that may affect REE's objectives and activities, applying uniform criteria, within the established risk limits”.*

Material risks of REE are those that may significantly affect the overall objectives of REE, related to:

- *Sustained creation of value over time: Sustained profit growth, which must allow appropriate returns for investors and enable the company to implement its strategy.*
- *The continuity and quality of the energy supply in the electricity systems: the achievement of this objective involves the management by the System Operator and is dependent on the reliability and availability of the transmission network.*
- *The construction of the electricity transmission infrastructure network necessary to meet future needs. Red Eléctrica, as the sole transmission company, must design, fulfil the formalities for and construct the facilities specified by energy planning. This overall objective must be achieved on a cost-effective basis. The compatibility of the above objectives with social and environmental concerns.*

The most significant risks to which the Group is exposed, and which form part of the risk control system, are:

- *Regulatory, since the principal business activities of the Group are subject to regulation,*



- *Operational, basically arising from its assigned activities within the electricity system and the requirement to care for and protect the natural environment,*
- *Market, since most revenues, as well as certain expenses, may be influenced by variables such as inflation and interest rates, and*
- *Business and Credit (or counterparty), albeit to a lesser extent due to the lesser weight of the subsidiaries in the overall Group and the existing regulation regarding invoicing and collection for transmission and operation activities.*

From an analysis of these risks, different elements of control are defined under the ICFR with a view to properly covering the objectives of transparency and reliability, free of fraudulent elements, which must govern the process of preparing the financial information. These elements of control aim to provide sufficient coverage, as far as design and operations are concerned, for the following specific risks associated with the ICFR:

- **Risk of completeness:** to ensure that no transactions go unrecorded.
- **Risk of validity:** the transactions carried out are valid.
- **Risk of recording:** incorrect recording of transactions.
- **Risk of cut-off:** not all transactions are recorded in the period in which they accrue for accounting purposes.
- **Risk of valuation:** transactions are valued incorrectly.
- **Risk of presentation:** transactions are presented in a way that might lead to confusion, or include insufficient items of information for compliance with applicable reporting requirements.

The Board of Directors is, via the Audit Committee, the body that ultimately has the duty of *"periodically supervising the internal control and risk management systems, so that the principal risks are adequately identified, managed and disclosed"*, as stipulated in the Regulations of the Board of Directors.

3. Control activities

REE has a wide range of specific **"Control activities"** that are designed to reduce any risks of error or irregularity that underlie the process of preparing the financial information at every level.



- **Procedures for reviewing and authorizing financial information and description of the ICFR, to be published on the securities markets, stating the persons responsible, and documents that describe the flows of activities and controls (including those relating to the risk of fraud) for the different types of transactions that may have a material effect on the financial statements, including the procedure for the accounting close and the specific review of significant opinions, estimates, assessments and forecasts.**

The Board of Directors delegates to the Audit Committee the functions *"To approve the Company's internal control procedures in the areas of expenditure and investment, making the appropriate amendments, as the case may be. To supervise the internal audit function, which will ensure the sound functioning of the internal reporting and control systems and must address requests for information from the Audit Committee in the performance of its functions"* (set out in the Red Eléctrica Regulations of the Board of Directors).

"Control activities" are a key element in the setting up of an efficient ICFR, and must be accompanied by a suitable design and operating procedures.

In this regard, the ICFR model sets a series of critical **control targets**, the achievement of which, without exception, allow it to achieve reliability and transparency in the process of drawing up its financial information. Achieving this is intrinsically connected with ensuring that the "Control activities" so defined are efficient in all their terms, throughout the performance of these activities in every one of the processes that support achieving the control targets.

In this context, the control structure defined specifically in the ICFR context determines two scales of controls:

- Controls or element for assessing the indicators set by the CNMV. ("IAIs).
- Process controls.

The **Controls or element for assessing the indicators set by the CNMV and the General Controls** represent the basis which underlies the ICFR model. They are transversal controls that directly affect the organizational and processes structure of REE. At 2012 year-end, there were 36 controls or elements for assessing the indicators set by the CNMV operating in the area of the ICFR and 16 general controls in the area of the ICFR. Responsibility for these controls lies with Management, detailed as follows:

- The Corporate Economic and Financial Department through the Economic Department.
- The Office of the Secretary General to the Board of Directors.
- Global Risk Control and Corporate Regulation Department (Internal Audit).
- Corporate Affairs Department (Human Resources Department).



The significance acquired by the reporting systems in the area of control of the ICFR is reflected by the level of management involved.

The **process controls** have been integrated in each of the main cycles and sub-cycles that make up the processes of the REE ICFR, ensuring that REE's financial information is reliable and transparent, as well as being mitigating factors associated with the risks in the processes for preparing the financial information referred to above. These control activities have been deployed in the ICFR throughout the different areas of the model (consisting of cycles and sub-cycles).

On the basis of their characteristic features, these process controls may be classified:

- According to their nature:
 - Preventive: to prevent the materialization of financial risks.
 - Detective: to identify errors after they have occurred.
 - Corrective: to rectify errors after they have occurred.
 - Directive (Policy): controls supported by policies or procedures/instructions of the company; these are usually associated with signature and formal approval requirements.
- Depending on the level of automation:
 - Manual: controls carried out directly by individuals.
 - Semi-automatic: controls carried out by individuals and validated by "IT means", or vice versa.
 - Automatic: "IT-based" controls.

Major transactions that attempt to ensure reliability and transparency in the process for drawing up the financial information include, in particular:

- Reviewing the processes for estimates and provisions (at the level of income and expenses).
- Reviewing impairments associated with the assets recorded (essentially referring to assets).
- Reviewing the bringing of assets into operation and the associated processes for setting values (capitalized items, monitoring administrative approvals, technical conditions for bringing into service, etc.).
- Reviewing by using specific, compulsory procedures and/or instructions for:
 - Manual recording and/or accounting entries.



- One-off operations (assessment at the level of senior management of any economic and financial, corporate and legal implications that might arise from such operations).
 - Closing the Financial Statements, drawing up the individual and consolidated Financial Statements. The internal rules that govern these points are set out in: (i) the "Accounting Policies Manual and Group Accounting Plan" (setting out the accounting policies to be followed at REE when recording accounting entries in the information system, and for drawing up the Financial Statements, for the purpose of ensuring a true and fair view of net worth, the financial situation, the results of operations, changes in net equity and cash flows) and (ii) the "Procedures for drawing up and closing the Financial Statements and the individual and consolidated Financial Statements" which states that *"the process for closing the financial statements takes place twice a year (at year-end and half-way through the year when interim half-yearly information is prepared) and which has the purpose of obtaining financial statements that reflect the company's economic situation. In this process all the companies in the group that have to draw up their own financial statements in accordance with the local rules in force in their own countries are affected"*.
 - Drawing up and publishing the financial information (including aspects relating to the preparation and approval of the Annual Corporate Governance Report, Financial Statements, Corporate Responsibility Report, notifications to the National Securities Exchange Commission, official notifications, etc. The main internal rules that govern these aspects are set out in: (i) the "Procedure for regular public reporting to regulatory bodies of the securities market", (ii) the "Procedure for drawing up and closing the Financial Statements and individual and consolidated Financial Statements". At this specific level of closure of information and, as applicable, subsequent publication, the Investor Relations Department, the Corporate Economic and Financial Department, the General Secretariat, the Board of Directors and Chairman, play an essential role.
- **Internal control policies and procedures for information systems (inter alia, for secure access, exchange control, system operation, continuity of operations and separation of functions) that support the major processes of the company in connection with the drawing up and publishing of the financial information.**

REE's corporate information systems play a major role in the business cycles, sustaining the systems and applications used for preparing financial information.

In this regard, elements such as the General Computer Controls ("GCCs") provide a framework for control aimed at providing a reasonable level of security for the information systems that support financial reporting, and guaranteeing, as far as possible, the confidentiality, availability and integrity of information.

The objectives established in the framework of the General Computer Controls support compliance with the control targets relating to data processing through IT means, by



defining, developing, implementing and reviewing control activities regarding strategy and management of information technology (IT), managing change, be it at application or infrastructure level, controlling security and access parameters for software and hardware, managing users and permissions, dealing with and scaling incidents, continuity of operations, storing and recovering data, monitoring operations, etc.

The rules governing all action taken in connection with the corporate information systems have been set out in the "Group Information Security Policies" and the "Information System Policies", where the principles that are to be used to efficiently manage the security of the data processed by REE's computer systems are stated, together with the assets used in the processes. These policies reflect senior management's commitment to ensuring the security of data systems, which is also set out in various technical documents that govern the day-to-day operations of the Corporate Information Systems and Technology Department.

Consequently, the "Group Information Security Policies" and the "Information System Policies" favour the creation of a "security framework" which aims to establish the responsibilities and the structure of the relationship between the Requesting Units and the Corporate Information Systems and Technology Department for developing the Corporate Information Systems Management function of REE.

Furthermore, as part of the information systems control objectives, a proper separation of functions has been established, which is an essential requirement for an ICFR of the type used by REE to work efficiently, since it is vitally important to be able to ensure segregation between the person who is performing the acts associated with the processing of the financial information and the person who has to review and/or approve them. For this reason, correct assignment of roles and profiles, for both technical staff and those in positions and functions corresponding to the business areas, are key factors in the success of the process.

- **Internal control policies and procedures used for supervising the management of activities outsourced to third parties, as well as those aspects of assessments, calculations or valuations that are entrusted to independent experts, which may have a material effect on the financial statements.**

REE is particularly concerned about operations carried out by third parties (in order to ensure that, in any key processes that might be outsourced, there is a maximum guarantee of control, regarding the standards required by REE at the level of its processes).

As a fundamental premise, it is general policy not to outsource any activity that is deemed to be significant and that might have a material effect on the financial statements of companies that do not belong to the Red Eléctrica Group.

In all cases, the outsourcing of such activities is set out in a service agreement, which clearly states the service in question and the means to be used by the service provider to provide the service.



4. Information and communication

Reporting and communication tasks carried out throughout the process for drawing up the financial information are of particular significance in Red Eléctrica's ICFR, as they must enable the staff involved in the process of drawing up the financial information to know what action criteria apply, as well as the information systems being used in these processes.

- **A specific function tasked with defining and updating accounting policies and resolving any queries or disputes arising as a result of their interpretation, maintaining a fluent dialog with the people responsible for operations in the organization, as well as an up-to-date accounting policies manual that is communicated to the units through which the entity operates.**

The Economic Department is responsible for defining and resolving any aspect connected with the interpretation of the accounting policies, providing coverage to any area of the Company (any action is taken bearing in mind the references of the "Accounting Policies Manual and Group Accounting Plan"). This Department is located within the Corporate Economic and Financial Department, which in turn reports to the Chairman of the Board of Directors himself.

The accounting policies are established on the basis of the legal framework applicable to the Company, as set out in the Commercial Code, the National Chart of Accounts and other commercial legislation, and in the International Financial Reporting Standards adopted by the European Union.

REE has an "Accounting Policies Manual and Group Accounting Plan". This document, duly disseminated to the employees to whom it applies, is a benchmark for setting the guidelines and activities in the area of accounting records.

The unit responsible for maintaining this manual is the Information and Administration Department, reporting to the Economic Department.

- **Systems for gathering and preparing the financial information using standard formats, to be applied and used by all the units in the company or the group, which supports the main financial statements and the notes, as well as the information set out on the ICFR.**

REE has the following systems:

Internal:



- REE has formal processes for closing and preparing the information specifically associated with the financial statements (FS). In both cases, the procedures for closing and drawing up the FS mentioned above contain the guidelines for action and supervision that are developed in obtaining, analyzing and subsequently preparing the information for final approval.
- In addition, there is a specific system for the entire process of preparing the Financial Statements, where the Audit Committee, which reports functionally to the Board of Directors, takes on particular significance. It is tasked with ensuring maximum guarantees for the entire process of drawing up the information (both with respect to the supervisory tasks of the Internal Audit function and the external auditor), as a step prior to the preparation by the Board of Directors.

External:

- At this level, REE aims to provide external agents with accurate and reliable financial information about its net worth, financial situation and the result of its operations. To do this, the "Internal Code of Conduct on the Securities Market" governs these aspects, both with respect to notifications to supervisory and/or regulatory bodies, and to the media.

5. Supervision and functioning of the system

The supervision and functioning of the internal control system aims to take on a preventive role, in the form of different reviews and analyses and, whenever necessary, solutions to faults in the design and/or way the model works. The rules governing the hierarchical scaling of supervision and/or notifications entrusted to it are adequately set out in the "REE ICFR Manual".

- **Supervisory activities of the ICFR carried out by the Audit Committee, and if the company has an Internal Audit function that includes among its competencies supporting the Committee in its internal control supervisory work, including the ICFR**

Guaranteeing an up-to-date model that is in line with the reality of the business and with best practices is a critical aspect in order to achieve an efficient ICFR model that ensures that the process for drawing up the financial information is reliable and transparent.

This constant analysis and monitoring of the ICFR, detecting any faults and making the appropriate changes and improvements, is performed via the following actions:

- Through the function delegated to it by the Audit Committee, Internal Audit plays a key role in the ICFR. In this connection, it carries out regular checks of the cycles contained in the ICFR in accordance with the planning set out in the Annual Audit Plan.



- Effective supervision by the Audit Committee, in relation to ultimate control over the ICFR model, delegated by the Board of Directors, and instrumented via the Internal Audit function.
- Lastly, where proposed actions are finalized and subsequently included, a design and final validation process will be set in motion, so that they may be finally included in the ICFR model.

Throughout this supervision process, the Internal Audit function plays a key role. Its main objectives are:

- To ensure and improve compliance with the internal controls established at the Company.
- To carry out regular checks, on a selective basis, to ensure that documents are kept up-to-date, in accordance with the provisions of the Annual Audit Plan.
- To check that actions to correct the ICFR have been properly implemented based on the provisions of the Annual Audit Plan.

To ensure that these objectives are achieved, an "Annual Internal Audit Plan" is established, which is supervised and approved by the Audit Committee.

- **Discussion procedure whereby the auditor, the internal audit function and other experts may report to senior management and to the Audit Committee or the Board of Directors on major internal control weaknesses that have been identified in the processes for reviewing the financial statements and in any other processes that may have been entrusted to them.**

The objectives defined by REE's Audit Committee with respect to the supervision of the functioning of the System include ensuring that the auditor, the Internal Audit function and other experts can report to senior management and to the Board of Directors on major internal control weaknesses identified in the processes for reviewing the financial statements and in any other processes entrusted to them. In this regard, reports shall be made for each review task carried out when it is completed, and prior to drawing up of the financial statements by the Board of Directors.

6. Other relevant information

REE has submitted its ICFR to a voluntary review since 2008. These reviews have been carried out by Deloitte, S.L.

7. External auditor's report

REE has asked DELOITTE, S.L. to review its ICFR. The report on the ICFR appears in REE's Corporate Responsibility Report.