



**RED ELÉCTRICA**  
CORPORACIÓN

**Annual Corporate Governance Report 2013**

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

YEAR 2013<sup>1</sup>

## PREAMBLE

Since being admitted to trading on the Stock Exchange almost fifteen years ago, RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter, also called Red Eléctrica or the Company) has been developing its own internal Good Corporate Governance culture, which has seen it not only comply with the content of the enforceable legal regulations in this area but also with the broader national and international recommendations, which it implements on a voluntary basis, in order to meet the requirements of the most demanding shareholders and other Company stakeholders.

The proliferation of new recommendations in the area of Good Corporate Governance and the incorporation of some of these into Spanish law, has intensified in recent years. 2013 was a particularly active year in Spain in this respect, marked by the creation in March, at the request of the Government of Spain, of a Committee of Experts on Corporate Governance for the purposes of broadening the current good governance framework, thereby raising national standards to the highest levels of compliance with international Corporate Governance standards and principles. On the basis of the work of this Committee of Experts, published in October, a Bill has been proposed to amend the Corporate Enterprises Law in order to improve Corporate Governance (currently in preparation) and the Committee of Experts has launched a full review of the current Unified Code of Good Governance of Listed Companies. In addition, modifications are well under way to amend the current Spanish Code of Commerce, via the Mercantile Code Proposal prepared by the Corporate Law Section of the General Codification Commission in June 2013, which revises and updates corporate law and the specific regulations applicable to listed companies, therefore affecting the future regulation of the Corporate Governance of these companies.

Notwithstanding the recent moves by the legislature and Spanish regulators, Red Eléctrica has for many years been using various tools (road shows for investors and proxy advisors, external evaluations of the functioning of the Board, permanent advisors specializing in Corporate Governance, external auditors of the management procedures of the General Shareholders' Meetings, etc.) that have enabled it to gauge the evolution of its best practices in the area of international Corporate Governance and to incorporate them on a progressive basis, since almost 70% of the share capital of the Company is held by foreign shareholders to which the Company is fully committed. In line with improving dialogue and commitment to its foreign shareholders, the Chairman of the Corporate Responsibility and Governance Committee has attended meetings held with the proxy advisors in 2013 and 2014.

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<sup>1</sup> Unless another date is expressly indicated in this report, its contents are deemed to refer to 31 December 2013.

In this regard, in 2013, the Company adopted a series of measures on Corporate Governance, referenced throughout this report, which are aligned with the announcements in the Annual Corporate Governance Report (also called the ACGR) for 2012. Notable is the adoption of new measures to counterbalance the powers and responsibilities of the chief executive and chairman of the Board of Directors, through the adaptation of the Corporate Bylaws to allow the separation of the positions of Chairman of the Board and CEO of the Company and the creation of the post of Lead Independent Director, approved at the last General Shareholders' Meeting held in May. This involved the immediate appointment in May of the Lead Independent Director by the Board of Directors, a position that has been granted extensive powers to organize the shared positions of the independent directors and to serve as a channel for dialogue between these roles before the Chairman of the Board, and as a channel for direct communication with the shareholders.

Progress has also been made in strengthening and creating new channels of communication and dialogue with the shareholders of the Company in the area of Corporate Governance, such as our admittance (as the first Spanish listed company) to the prestigious worldwide Corporate Governance organization, International Corporate Governance Network (ICGN), formed mainly of foreign institutional investors, or in improving the transparency and quality of the information available to shareholders on the corporate website, which is detailed below.

Another milestone reached in 2013 was the adoption by the Board of Directors, at its meeting of 28 May 2013, of the new Code of Ethics at Red Eléctrica Group (the third version since the company's incorporation), in order to continue to adapt to the requirements of our stakeholders and society at large, and to the recommendations of the various legislating bodies in this area, in particular, the most highly reputed international agencies in the area of ethical management. The new Code makes a strong commitment to ethical management as a driver of the brand and reputation of the Red Eléctrica Group, which came into being in 1987 with the adoption of the so-called Basic principles of action, and were subsequently revised and evolved into the Code of Ethics and Corporate Values approved in 2007, having been subject to analysis and review again in recent years, concluding with the adoption of the new Code of Ethics in 2013.

2013 is also worthy of note in the area of regulatory compliance, as this year saw the consolidation of the Company's Criminal Risk Prevention Model, approved by the Board of Directors in 2011, with a view to strengthening the mechanisms to prevent crimes that could potentially be committed within the company. The approval of the Programme led to the creation of a Monitoring and Control Board to monitor compliance with this Model and to implement concrete measures in order to ensure it is kept updated and is implemented. The said independent body reports directly to the Audit Committee of the Board of Directors, to which it provides regular information and for which it produces an annual compliance report that is raised to the Board of Directors, which assesses the adequacy of the existing policies or procedures to manage the criminal risks identified. Notwithstanding the aforementioned corporate system on compliance in criminal matters, in the immediate future the Company is expected to expand and strengthen the compliance mechanisms applied within the organization, as set forth at the end of this report.

In terms of the remuneration policy of the Board, we have also taken important steps aimed at maintaining the quantitative restraint, simplifying the remuneration structure of the Board and improving the transparency of information, considering the recent demands of shareholders and based on a comprehensive international benchmarking conducted in 2013 by a prestigious international external consultant, after the holding of the last General Shareholders' Meeting.

In March 2013, the Company also performed a rigorous adaptation of the Regulations of the Board of Directors to the international standards, with a view to providing the Board with a modern and cutting-edge tool in the field, without prejudice to any future adaptations that may be necessary as a result of legal amendments that may occur in Spain.

With the experience gained from the reviews undertaken in 2012, for the first time ever the Company has performed an external audit of the management procedures of the Annual General Shareholders' Meeting held in 2013, to reinforce and guarantee the rights of shareholders. This report was made available on the corporate website from the date of the conclusion of the said General Shareholders' Meeting.

Following the annual evaluation of the Board of Directors in 2011 and 2012 by the consultant KPMG (which was appointed External Auditor of the Company and the Group at the General Shareholders' Meeting held in 2013), at the proposal of the Corporate Responsibility and Governance Committee, the Board decided to appoint a new consultant to conduct the annual evaluation of the Board of Directors and after examining a number offers from world-class firms, it awarded the contract to PricewaterhouseCoopers. This evaluation is currently in the final stages and a summary of its preliminary findings are discussed, as always, in this report.

After conducting a comprehensive international benchmarking, in 2013 the Company also made wide-ranging changes to the corporate website, in terms of its structure and content, by creating a specific section that is accessible from the home page of the website, containing all of the information relating to the Corporate Governance of the Company. The aim is to improve communication channels with the shareholders, which will permit a more fluid dialogue and a better understanding of the functioning of the governing bodies of Red Eléctrica.

Also worthy of note in 2013 was the creation of the Corporate Governance Department, reporting to the Office of the General Secretary of the Board of Directors, to facilitate the implementation and dissemination of the international best practices of good Corporate Governance at Red Eléctrica and to help strengthen its positioning in this area.

As regards the ACGR, once again this year the intention is to go beyond the mere compliance with mandatory statutory reporting requirements and to report according to international best practices in the area of Corporate Governance, out of respect for the majority of foreign investors in the company, by providing complete, detailed and comprehensive information on the ownership structure and management of the Company, on aspects related to the General Shareholders' Meeting and the Board of Directors, on the duties of the directors and, in general, on any matters that the shareholders, investors and markets may consider relevant to improve their understanding of the Company's progress in the field of Corporate Governance.

In this regard, this year the Company has made a special effort to expand and improve the quality of the information in the report in various fields, such as the management and control of the Group's risk or the attendance level of directors at meetings of the Board of Directors, which for the first time includes an individualised breakdown.

In line with this improvement of the information contained in the report, and since 2014 will see the fifteenth anniversary of the Company's admittance to trading on the Stock Exchanges, we have included a new section in order to give an overview of the historical evolution of Corporate Governance at Red Eléctrica since 1999, highlighting the major developments each year to the present date. In addition, the Company

intends to continue reporting (as it did in 2013) on the Corporate Governance roadmap established by Red Eléctrica for the coming years, which is explained in Title V Prospects for Corporate Governance.

Thus, our aim is to provide shareholders with an overview of the origins of Corporate Governance at the Company since its admittance to trading, passing through the various stages of the Company's historical evolution, and ending by taking a look at its immediate Corporate Governance future. By doing so we hope to pre-empt, to a certain extent, the reporting methods that will soon be found in the criteria and objectives of the future Integrated Reporting.

Finally, regarding the system and structure of this report, we should point out that it is divided into five Titles, based on a template developed by the Company voluntarily, and in which the following key aspects of Corporate Governance are addressed:

- I- History of Corporate Governance at Red Eléctrica.
- II- The Legal Framework applied at Red Eléctrica.
- III- Main corporate governance aspects and principles at Red Eléctrica.
- IV- Year 2013 at Red Eléctrica.
- V- Prospects for Corporate Governance at Red Eléctrica.

An Official Annex is also attached to the Report, to be completed in accordance with the new format laid out in the Template of Annex 1 to Circular 5/2013, of 12 June, of the National Securities Market Commission (CNMV).

Signed: José Folgado Blanco

## **TITLE I: HISTORY OF CORPORATE GOVERNANCE AT RED ELÉCTRICA**

### **1999**

Initial Public Offering (IPO) of shares of Sociedad Estatal de Participaciones Industriales (SEPI) and Admittance to Trading of the Company on the Stock Exchange.

Legal limitations established on shareholdings in Red Eléctrica: 10% overall and 25% for SEPI until 31 December 2003, the date on which its shareholding may not be less than 10% and a special aggregate limit of 40% for electricity companies.

Amendments to the Corporate Bylaws to adapt them to the requirements of listed companies and to incorporate the principles and recommendations of the Corporate Governance Code ("Olivencia Code"), which introduced a classification for directors.

Approval of the new Regulation of the Board of Directors for its adaptation to the "Olivencia Code".

Adoption of an Internal Code of Conduct on the Securities Market, according to the CNMV's model, which adapted the one already in force at Red Eléctrica since 1994 to the CNMV Circulars in relation to material events, confidential data and treasury stock.

Board of Directors composed of 13 directors, within the bylaw limits of 13 and 15 members.

4 independent directors (31% of the Board).

Creation of the Audit and Compliance Committee and the Remuneration Committee.

Minimum of 50 shares to attend the General Shareholders' Meetings.

After the IPO, free float of 31.5%, with a 28.5% shareholding by SEPI and 40% held by important electricity shareholders.

Creation of an "Investor Relations Unit" to deal with inquiries from investors.

### **2000**

For the first time ever, in connection with the Olivencia Code, information regarding the monitoring of good governance recommendations was included in the Annual Report of the Company for the year 1999 (according to Circular 11/1998, CNMV).

Ratification by the General Shareholders' Meeting of the number of directors at 13.

The 4 independent directors (31% of the Board) were maintained

Appointment of directors by the General Shareholders' Meeting, grouped together in a single point.

Amendment to the Regulations of the Board of Directors in order to introduce a series of adjustments to the functioning of the Committees.



Within the Olivencia Code annual monitoring report, the Company informed that the fees for professional services other than auditing were not significant (without specifying the amounts).

The Audit and Compliance Committee held five (5) meetings and the Remuneration Committee held eight (8).

## **2001**

The percentage of independent directors on the Board (31%) was maintained.

The appointment of directors continued to be submitted to the General Shareholders' Meeting, in a grouped manner.

The Audit and Compliance Committee held seven (7) meetings and the Remuneration Committee held four (4).

## **2002**

There are no notable developments regarding the decisions adopted in 2001, except for certain regulatory changes and Good Governance matters:

- The approval of Law 44/2002, of 22 November, on Financial System Reform, in relation to the composition and functions of the Audit Committee, mandatory since that time for listed companies, which shall have no effect until 2003.
- The approval of Law 53/2002, of 30 December, on Fiscal, Administrative, and Social Order Measures, which gives a new wording to Article 34 of the Electricity Sector Law, modifying the limits on shareholder equity in the Company, which shall have no effect until 2003.
- Approval of the Report prepared by the Special Committee for the Promotion of Transparency and Security in the Markets and Listed Companies, known as the "Aldama Commission," which will take effect from 2003.

The Audit and Compliance Committee held five (5) meetings and the Remuneration Committee held four (4).

## **2003**

Annual General Shareholders' Meeting, first annual amendment to the Bylaws in order to:

- Reduce the maximum number of directors to 13.
- Adapt to Law 44/2002, of 22 November, on Financial System Reform, in relation to the composition and functions of the Audit Committee, mandatory for listed companies.

Subsequent process of Initial Public Offering (IPO) of shares of electricity shareholders (companies) with significant holdings, which now held 3% each, increasing the free float of the Company to 59.5%.

Holding of an Extraordinary Shareholders' Meeting -July-, following the IPO, with a view to:

- New adaptation of the Bylaws in order to:
  - Incorporate the new legal limit on shareholdings in Red Eléctrica, which was reduced from 10 to 3 percent, and the suspension of voting rights above these percentages; furthermore, the Company also incorporated the special framework applicable to SEPI (a holding of at least 10%, according to Law 53/2002, of 30 December, on Fiscal, Administrative, and Social Order Measures, which gives a new wording to article 34 of the Electricity Sector Law and its ninth transitional provision).
  - Incorporate the stipulations of the legislative proposal amending the Public Limited Companies Law and the Securities Market Law in order to reform the transparency of listed companies -still under debate at the Senate and later known as the Transparency Law-, with the aim of adapting the internal rules of the Company to the rules of Good Corporate Governance stated by the Special Committee that drafted the Aldama Report on the Code of Ethics, regarding the functioning of the Boards of Directors and the Good Corporate Governance Code.
- Approval of the Regulations of the General Shareholders' Meeting, recommended by the Aldama Report, in order to recognize, encourage and maximize the rights of the shareholders of the Company.
- From among the previous amendments to the internal Corporate Governance regulations, noteworthy are:
  - Elimination of the minimum number of 50 shares to attend Meetings.
  - Reduction of the term of office of directors to 4 years.
  - Principle regarding the composition of the Board so as to ensure the share capital is adequately represented, with a large majority of external directors.
  - New article in the Corporate Bylaws relating to the Appointments and Remuneration Committee.
- Reduction of the effective number of Directors from 13 to 11.
- Appointment of new directors, still in a grouped manner.
- Independent directors increase to 5 (45% of the share capital), following the IPO.

Approval of the new Internal Code of Conduct on the Securities Market (July) adapted by law to the aforementioned Law 44/2002, which incorporates the new legal regime on relevant information and insider information.

Adoption of the new Regulations of the Board of Directors (November), which reflects the recommendations of the Aldama Report and the new requirements of the Transparency Law.

Creation of the new Audit Committee (7 meetings per year) with a majority of independent directors, which replaced all the functions of the previous Audit and Compliance Committee.

Creation of a new Appointments and Remuneration Committee (5 meetings per year) with a majority of independent directors (and the presence of the executive director) to replace all the functions of the former Remunerations Committee.

## 2004

Preparation of an Annual Corporate Governance Report, following the recommendation of the Aldama Report, which includes the Company's practices in the field applied in 2003, and which replaces the special chapter devoted to Corporate Governance included in the Annual Report. Noteworthy were:

- Incorporation of information on individual shareholdings of directors and more extensive information on treasury stock.
- Publication for the first time ever of the career of each of the directors.
- For the first time ever, a record of the amounts of the annual remuneration of the Board, grouped by director category and by item.
- Incorporation of information on other posts held by the directors, related-party transactions, risk control, the General Shareholders' Meeting (including quorum data and adoption of resolutions) and the rights of shareholders.

Adaptation of the Corporate Bylaws and the Regulations of the General Shareholders' Meeting to the requirements of the Transparency Law (Law 26/2003, "Aldama Law"), due to the fact that when the Extraordinary General Shareholders' Meeting was held in 2003, the said law was not in force.

Introduction into the internal rules on Corporate Governance of the new legal provisions relating to the Company's website and remote voting and proxies; and enhancement of Web content.

Adoption by the Board of Directors of the Independent Directors Bylaw, which creates a special internal framework applicable to independent directors, a pioneering measure among Ibex-35 companies, aiming to strengthen the role of these directors on the Board of Directors.

The Audit Committee held nine (9) meetings and the Appointments and Remuneration Committee held ten (10) meetings.

## 2005

Preparation of the Annual Report on Corporate Governance (year 2004) following the new official model in Circular 1/2004, of 17 March, of the CNMV. Developments worthy of note were:

- Information was provided on golden parachute clauses for executive directors.
- Aggregate information was included on the remuneration of senior management.
- Information on the external auditor was included relating to work other than auditing (amount and percentage of the total) and the number of years linked to the Company.

Approval of the Procedure for proxies, voting and information by remote means at the Annual General Shareholders' Meeting: Effective implementation of the electronic voting system at the General Shareholders' Meeting.

Amendment to Law 54/1997, of 27 November, on the Electricity Sector (Royal Decree Law 5/2005, of 11 March), modifying the limits on shareholdings in the Company, as follows (with suspension of voting rights of shareholders exceeding these limits):

- Electricity companies and those with a holding in their share capital greater than 5%: 1% (ban on syndicated holdings greater than 40% maintained)

- Remaining shareholders: 3%
- SEPI: Minimum of 10% (unchanged).

Inclusion for the first time in the index Dow Jones Sustainability World Index (DJSI).

SEPI sells 8.5% of Red Eléctrica, maintaining a 20% holding, with the free float of Red Eléctrica reaching 70%.

After the sale of the SEPI shareholding, the Company proceeded to change the structure of the Board of Directors, incorporating 3 new independent directors, reaching a total of 7 (64% of total).

The Audit Committee held eight (8) meetings and the Appointments and Remuneration Committee held ten (10) meetings.

## 2006

Significant entry of foreign shareholders (from the UK and the US) during the sale of shares of SEPI the year before, which now represent 45% of the share capital.

Red Eléctrica begins the voluntary publication of an Annual Report on Corporate Governance (year 2005) according to its own structure, in order to provide a response to the shareholders, together with an Annex following the official template set out in Circular 1/2004, of 17 March, of the CNMV.

The individual director remuneration relating to 2005 was published for the first time, on a voluntary basis, and information was also provided regarding senior management golden parachute clauses.

For the very first time, the appointment of directors was put to the vote of the General Shareholders' Meeting separately and individually.

Amendment to the Bylaws and the Regulations of the General Shareholders' Meeting in accordance with the requirements established by Law 19/2005, of 14 November, on European Public Limited Companies domiciled in Spain, amending the Spanish Public Limited Companies Law: New rights of shareholders.

Approval of the Procedure for proxies, voting and information by remote means at the Annual General Shareholders' Meeting: Effective implementation of electronic remote proxies (along with electronic voting), postal voting and electronic information requests, at the General Shareholders' Meeting.

We performed the first direct broadcast of the General Shareholders' Meeting, through a "video webcast" system, providing its simultaneous translation into English.

For the very first time, we began to publish the Annual Corporate Governance Report, the call notice and the proposed resolutions for the General Shareholders' Meeting (mostly after the conclusion of the General Shareholders' Meeting), all in English on the corporate website.

Approval of the new Internal Code of Conduct on the Securities Market to adapt it to the best Corporate Governance practices and the recent legislation on market abuse, the handling of insider and relevant information and the reporting obligations to the CNMV concerning shareholdings of Directors and Executives, including treasury stock.

Implementation, for the first time and with the support of an external consultant (Seeliger&Conde), of an annual self-evaluation process regarding the internal functioning of the Board, its Chairman and the Committees.

The Audit Committee and the Appointments and Remuneration Committee held nine (9) annual meetings each.

## **2007**

Adoption, on a voluntary basis, of the Code of Ethics of Red Eléctrica Group, which 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.

Appointment of an Ethics Manager, 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.

Submission of the Board's remuneration, for the first time ever, to the approval of the General Shareholders' Meeting.

Analysis and adaptation of the Internal Corporate Governance Rules of the Company to the recommendations of the Unified Code Good Governance of Listed Companies (Conthe Code), prior to its entry into force.

Broadening of shareholder rights to information and attendance at the General Shareholders' Meeting (right to attend, call notice and inclusion of points and proposals on the Agenda, queries and requests for information, proxies and voting).

We began to submit amendments to the articles of the Corporate Bylaws to the General Meeting in order for it to vote separately on them, by issue.

Improvement in the methods for requesting and obtaining information both electronically and by mail, encouraging the participation of shareholders at the General Meeting, and improving the usability of electronic channels.

Completion of the first external evaluation of the Board and commencement of a new self-evaluation process, this time using internal resources.

Renaming of the Audit Committee (hereafter, the Audit Committee) and of the Appointments and Remuneration Committee (now the Appointments, Remuneration and Corporate Governance Committee) and broadening of the roles of both bodies in the matters within their jurisdiction.

Voluntary development of a project to align, review and improve its system of Internal Control over Financial Reporting (ICFR).

Publication in the ACGR of a list of external recognitions in the area of Social Responsibility and Good Corporate Governance.

The Audit Committee held ten (10) meetings and the Appointments, Remuneration and Corporate Governance Committee held eleven (11).

## **2008**

The free float reached 80%, following new share sales of the electricity companies, while SEPI maintained its holding at 20%.

The mostly English-speaking, foreign shareholders now account for 57% of the share capital.

Law 17/2007, of 4 July, sets new maximum limits on holdings in the equity of the Company (included in the Bylaws and the Regulations of the General Shareholders' Meeting, in 2008):

- Overall shareholding limit: 5%
- Overall voting rights limit: 3%
- Limiting of voting rights for electricity companies (and those with more than a 5% shareholding therein): 1%
- The special framework applicable to SEPI (minimum 10%) was maintained.

Subsidiarization of the roles of system operator, manager of the electricity transmission network and carrier, in accordance with the mandate provided in Law 17/2007, such that the listed company became the parent company of the Group, thereafter being known as Red Eléctrica Corporación, S.A.

Approval of the Risks Policy of the Red Eléctrica Group by the Board of Directors.

Three female directors joined the Board of Directors (27.3%)

Approval of the first Annual Gender Diversity Report by the Board of Directors.

Consolidation of the practice of submitting the proposed annual remuneration of the Board to the approval of the General Shareholders' Meeting.

Implementation of the Code of Ethics Dissemination Plan within the organization.

For the first time in the ACGR, we provided information, in aggregate form and with percentages, on the directors' attendance and failures to attend the meetings of the Board of Directors and its Committees.

We expanded the information on Social Responsibility in the ACGR.

Ability to use national digital identity card to vote electronically at the General Shareholders' Meeting.

The Independent Director Bylaw was annulled after its contents were incorporated into the Regulations of the Board of Directors.

Implementation of the annual awareness program for directors regarding the activities of the Company.

The self-evaluation report of the Board was approved in the month of July, and at the end of the year a new process was commenced.

The Audit Committee held twelve (12) meetings, while the Appointments, Remuneration and Corporate Governance Committee held nine (9).

## 2009

Completion of the Code of Ethics Dissemination Plan and presentation to the Board of the Annual Code of Ethical Management Report, the first report to be prepared by the Ethics Manager in connection with the functioning of the management system of the said Code.

Decision by the Board to freeze its overall annual remuneration for 2008 at the amounts approved for 2007.

All documentation and information that is subject to the approval of the General Meeting, including the Annual Report on Corporate Governance, was made available to the shareholders and translated into English from the date of the call notice.

Approval (June) of a new Internal Code of Conduct on the Securities Market, faced with the need to adapt it to the new regulations in this area and the new corporate reality following the restructuring of the Group.

The self-evaluation report of the Board was approved in the month of July, and at the end of the year a new process was commenced.

Red Eléctrica was ranked first place on the Ibex 35, with the highest percentage of female members on the Board of Directors (27.3%), which has been maintained since 2008.

The Board of Directors undertook to prepare a report on gender diversity issues on an annual basis.

Initial contacts and telephone conferences with the proxy advisors began.

The Company participated in the creation, as a founding partner along with other leading listed companies, of the association known as Emisores Españoles, to defend the interests of Spanish issuers of listed securities and their good Corporate Governance.

The Audit Committee and the Appointments, Remuneration and Corporate Governance Committee held eleven (11) annual meetings each.

## **2010**

Adoption of the Code of Ethics Consolidation Plan for the period 2010-2012, aiming to improve the efficiency, transparency and integrity of ethical management.

Adoption (January) of a new version of the Regulations of the Board of Directors as a result of the corporate restructuring of the Red Eléctrica Group companies and the commitment to adopting best practices in Corporate Governance.

Start-up of the Directors' Portal in order to apply new technologies to the functioning of the Board and its Committees.

Renaming of the Corporate Responsibility and Governance Committee and expansion of roles in the area of Corporate Responsibility and Corporate Governance.

Meeting with US proxy advisor, to discuss aspects of Corporate Governance.

Submission of the Annual Report on Director Remuneration to the approval (binding vote) of the General Shareholders' Meeting, for the first time ever and on a voluntary basis, by means of a separate item on the Agenda (together with the practice, begun in 2007, of submitting the annual remuneration of the Board to the General Shareholders' Meeting for approval, in a separate point).

Approval by the Board of Directors of the Self-Evaluation Report regarding the Functioning of the Board of Directors, its Committees and its Chairman, in November; for the first time a summary of the findings were included in the ACGR.

First place ranking on the Ibex 35 was maintained, with the highest percentage of female members on the Board of Directors (27.3%).

The Audit Committee held ten (10) meetings, while the Corporate Responsibility and Governance Committee held eleven (11) meetings.

## 2011

Amendment to the Corporate Bylaws and to the Regulations of the General Shareholders' Meeting in order to adapt them to the new legal requirements established in Law 12/2010, of 30 June 2010 (basically affecting the composition, structure and functions of the Audit Committee) and Legislative Royal Decree 1/2010, of 2 July 2010, approving the Revised Corporate Enterprises Law.

Start-up of the Electronic Shareholder Forum to facilitate shareholder communication with Red Eléctrica, deriving from the regulatory requirements provided under the Corporate Enterprises Law.

Use of social media to publicize and disseminate the Annual General Shareholders' Meeting.

Progressive increase in the percentage of foreign shareholders since 2008, which still belong mostly to the UK and the USA, amounting to around 65% of the total share capital.

Approval of the Annual Report of the Ethics Manager for 2010 and commencement of a process to review and improve the Code of Ethics for 2007.

Annual evaluation of the Board of Directors, its Committees and the Chairman, with the support of an independent external third party (KPMG).

Adoption by the Board of Directors of the Company Chairman Succession Plan.

Update to the Internal Code of Conduct on the Securities Market in order to adapt it to the new corporate structure of the Group, as well as to record the new name of the Corporate Responsibility and Governance Committee.

The percentage of female directors (27.27%) on the Board was maintained.

The Annual Gender Diversity Report was published on the corporate website for the first time.



Approval by the Board of Directors of the new Equality Policy and a Comprehensive Equality Plan for the organization. The Company was awarded the Equality in the Workplace award by the Ministry of Health, Social Policy and Equality.

Adoption by the Board of Directors of a new Criminal Risks Prevention System.

Consolidation of the program of visits and meetings abroad with the most significant proxy advisors, and expansion to foreign institutional shareholders of the program to discuss issues relating to Corporate Governance.

EFQM (European Foundation for Quality Management): Red Eléctrica obtained the Business Excellence Award in the category "taking responsibility for a sustainable future."

The Audit Committee held ten (10) meetings, while the Corporate Responsibility and Governance Committee held eleven (11) meetings.

## **2012**

Adaptation of the Bylaws and the Regulation of the General Shareholders' Meeting to Law 25/2011, of 1 August, on the partial reform of the Corporate Enterprises Law and the incorporation of Directive 2007/36/EC, of the European Parliament and of the Council, of 11 July 2007, on the exercise of certain rights of shareholders in listed companies (enhancement of the corporate website).

Process for the review and improvement of the Code of Ethics during the year 2012.

A new female independent director joined the Company, making it the leading Ibex 35 company in the area of gender diversity: 36.4% of the Board total, with 40% female external directors.

Renewal of the Equality in the Workplace award by the Ministry of Health, Social Policy and Equality.

Succession of the Chairman of the Board and chief executive: Implementation of a Succession Plan which allowed for the orderly handover to an independent advisor who had been sitting on the Board since 2008.

Far-reaching Board shake-up, with a further 7 new directors joining (64% of total).

Complete replacement of the two Committees of the Board, with a majority of independent directors, and chaired thereby.

Preparation throughout the year, by the Corporate Responsibility and Governance Committee, of a process to select and evaluate candidates for the Board based on an array of skills.

Annual evaluation of the Board of Directors, its Committees and the Chairman by the same independent external consultant as used the previous year (KPMG), in order to continue the process: Summary of final findings from the 2011 process and preliminary findings from 2012 (before the completion of the process), included in the ACGR.

Verification by an external third party (Deloitte) of the management processes and the results of the votes taken at the Annual General Shareholders' Meeting.

Risk Management System at Red Eléctrica Corporación, declared to be in conformity with the principles stated in the ISO 31000 standard regarding Principles and Guidelines, by an independent external consultant (Ernst&Young).

Decision of the Board not to incorporate the new executive director to the Corporate Responsibility and Governance Committee, which furthermore, was reduced from 4 to 3 members (all external), being formed of a majority of independent directors.

5% reduction (unchanged since 2007) of the total annual remuneration of the Board of Directors and of senior managers for 2012. A more transparent remuneration policy for the Board.

Consolidation of the program of visits and meetings abroad with the proxy advisors and foreign institutional shareholders, to discuss issues relating to Corporate Governance.

Royal Decree-Law 13/2012, of 30 March, transposing Directive 2009/72, of July 13, which endorses the legal limitations on shareholdings and political rights applicable to the Company's shareholders, incorporating a number of additional restrictions on companies that perform generation or marketing activities.

Launching of a task force, supported by an external consultant, to analyze the annual corporate reporting process with a view to the future Integrated Reporting.

Prestigious external awards in the field of Corporate Governance: Inclusion, for the seventh consecutive year, on the leading Dow Jones Sustainability World Index (DJSI), RobecoSAM Bronze Class Distinction of the 2013 Sustainability Yearbook; leading worldwide utilities sector company on the FTSE4Good index; first place, for the fifth consecutive year (and first place in a total of 6 editions), according to the study "Culture, policies and responsibility practices of IBEX 35 companies", prepared by the Centre for Social Responsibility (CSR), etc.

The Audit Committee held ten (10) meetings, while the Corporate Responsibility and Governance Committee held twenty (20) meetings.

## **2013**

The highlights of the year in terms of Corporate Governance issues have been described at the beginning of this report, in the preamble. We now provide below the information by subject, structured by Title and Chapter.

## **TITLE II - THE LEGAL FRAMEWORK APPLIED AT RED ELÉCTRICA**

### **CHAPTER I.- EXTERNAL FRAMEWORK**

In accordance with the requirements of the applicable legislation (initially under Article 116 of the Securities Market Law (the “LMV”), introduced by Law 26/2003, known as the Transparency Law, and the Regulations of the Board of Directors (Article 46)), the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. has been complying, in its capacity as a listed company, with the obligation to prepare and approve an ACGR, which must be 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.

The amendment to the regulatory framework in this area, approved in 2011, reaffirmed the obligation of companies both to approve an annual ACGR (Article 61.bis of the Securities Market Law, introduced by the fifth final provision of Law 2/2011, of 4 March, on the Sustainable Economy (LES)) and to incorporate the ACGR into the Management Report, in a separate section (Article 538 of the Corporate Enterprises Law (LSC), approved by Royal Legislative Decree 1/2010, of 2 July, as amended by Law 25/2011, of 1 August).

The above-mentioned legal regulations specifically regulate the minimum content to be included in the ACGR, and incorporate new features compared with the previous ACGR format, the structure and content of which were regulated by Ministerial Order ECC/461/2013, of 20 March, and by Circulars 5/2013, of 12 June, of the CNMV.

These laws form the foundation of the Official Annex to this ACGR, which has been completed according to this template.

The legal framework affecting the various aspects of the Corporate Governance of Spanish Public Limited Companies has undergone many changes in the last four years, and this has had the immediate effect of causing a change in the primary 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 four years are:

- Law 12/2010, of 30 June 2010, amending, among others, the Audit Law, the Securities Market Law, and the Revised Public Limited Companies Law (subsequently repealed by the Corporate Enterprises Law). This Law, which entered into force on 2 July 2010, transposed Directive 2006/43/EC, of the European Parliament and of the Council, of 17 May 2006, on statutory audits of annual financial statements and consolidated financial statements, into Spanish law, and essentially affects the composition, structure and functions of the Audit Committee.
- Legislative Royal Decree 1/2010, of 2 July 2010, approving the Revised Corporate Enterprises Law, repealed, among others, the former Public Limited Companies Law and Title X (Articles 111 to 117) of the Securities Market Law, relating to listed companies (except for Articles 114.2 and 114.3, and Articles 116 and 116 bis, which have also been subsequently repealed by the Sustainable Economy Law 2/2011, of 4 March 2011).
- The Sustainable Economy Law 2/2011, of 4 March 2011, which in paragraph 3 of the fifth final provision adds a new chapter VI in title IV of the Securities Market Law, including Articles 61 bis and 61 ter, which expanded the minimum

content of the ACGR and established the obligation of the Board of Directors to prepare an Annual Report on Directors' Remuneration.

- Law 25/2011, of 1 August 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 3 April 2009, on structural modifications to commercial companies. This Law, which entered into force on 2 October 2011, introduced, among others, the following new features in the area of Corporate Governance:
  - It establishes measures aimed at reducing the organisational and operating costs of corporate enterprises.
  - It eliminates differences between a public limited company (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 introduced a new Article 11 bis into the Corporate Enterprises Law which regulates the electronic headquarters or corporate website. Of particular note in this Article are the provisions governing the creation of the corporate website, establishing for this purpose that the website must be decided upon 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 the publication on the website/journals 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 Public Limited Companies.
  - It incorporates some new features in the rules on listed Public Limited Companies, mainly in the following areas:
    - The information that the Company's website must contain.
    - Certain aspects relating to the results of voting.
    - The shareholders' right to information.
    - Matters relating to the representation by proxy of shareholders at Shareholders' Meetings.

- The dealings between the financial intermediary and its clients for the purposes of casting votes.
- Law 1/2012, of 22 June 2012, on the simplification of the information and documentation obligations for mergers and spin-offs of corporate enterprises, which redrafts certain aspects of the Corporate Enterprises Law, fundamentally affecting the regulation of certain aspects relating to the websites of listed companies (articles 11 bis, 11 ter and 11 quater) and the possibility of introducing Bylaw restrictions on voting rights, after these were expressly prohibited for listed companies by Law 12/2010, of 30 June (article 527 LSC).
- Royal Decree-Law 13/2012, of 30 March, which transposes the directives on the internal market in electricity and gas, and electronic communications, and under which measures are taken to correct deviations for mismatches between the costs and revenues of the electricity and gas sectors. As regards the framework applicable to the Company, it is worth noting, in relation to the limitations on its shareholdings and political rights, that it has consolidated the legal regime applied previously, as is explained in greater detail later in this Report (twenty-third additional provision of Law 54/1997, of 27 November).
- Order ECC/461/2013, of 20 March, which determines the content and structure of the annual Corporate Governance report, the annual remuneration report and other reporting instruments of listed public limited companies, savings banks and other entities issuing securities admitted to trading on official securities markets. This standard was developed by Circular 5/2013, of 12 June, of the CNMV, which establishes the minimum content of the annual report on Corporate Governance, and by Circular 4/2013, of 12 June, of the CNMV, which establishes the annual reporting templates for the remuneration of directors of listed companies.
- Lastly, 2013 saw the approval of the new Law 24/2013, of 26 December, on the Electricity Sector, which almost entirely replaced the hitherto existing Law 54/1997, of 27 November, and responds primarily to the need for greater regulatory stability, due to the annual imbalance existing between revenues and costs, and the continuing evolution of the sector, that have arisen in recent years. The Law consolidated the legal framework of limitations on shareholdings applicable to the Company, which has not been affected.

Furthermore, as part of the National Reform Plan 2013, the Council of Ministers agreed on 10 May 2013 to create a Committee of Experts to prepare a study to analyze the Good Corporate Governance status of companies in Spain and to propose whichever measures may be necessary to improve the effectiveness and accountability in the management of Spanish companies, all with a view to achieving the highest degrees of compliance with international good governance criteria and principles. This study was presented by the Expert Panel on 14 October 2013, and contains an analysis of the currently existing framework in Spain, and of the regulatory proposals necessary to improve it in two major areas. The first area deals with matters relating to the General Shareholders' Meeting and shareholder rights. The second area concerns the legal status of the directors, the composition and functioning of the Board, the remuneration framework for the directors and for the Board Committees. In this field, the performance of the directors is subjected to greater control, including remuneration.

With the publication of the study, the Expert Panel Panel concluded the first part of its work, the majority of which has been incorporated into the Draft Bill amending the Corporate Enterprises Law (LSC), which aims to improve the Corporate Governance of these companies, and which is expected to be approved in 2014, such that a large part

of the current Corporate Governance recommendations will become mandatory provisions enshrined in domestic legislation.

It is therefore expected that, following the wide-ranging amendments to the LSC to improve the Corporate Governance of public limited companies (scheduled for 2014), the Company will subsequently make the necessary adjustments to all of the affected internal rules regarding the Company's Corporate Governance, described in the next chapter.

The next phase in the work of the Expert Panel is to review the current recommendations included in the Unified Code of Good Governance (UCGG), which must be thoroughly revised in 2014.

## **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 now summarise the main changes in the area of Corporate Governance that have taken place in the Company's internal rules over recent years:

- In 2007, on a voluntary basis and before it was legally required, the Corporate Bylaws, the Regulations of the Shareholders' Meeting and Regulations of the Board of Directors were adapted to the recommendations contained in the UC GG, approved on 19 May 2006 by the Special Working Group advising the CNMV on the harmonisation and update of the Olivencia and Aldama Report recommendations on the good governance of listed companies.
- Further amendments were made to the Corporate Bylaws and the Regulations of the Shareholders' Meeting in 2008 in order to adapt them to Law 17/2007, of 4 July 2007.
- Continuing this policy, in 2009 the Internal Code of Conduct on the Securities Market was amended.
- The Board of Directors at its meeting held on 28 January 2010, 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 new version of the Internal Code of Conduct on the Securities Market referred to above. In May 2010, the General Shareholders' Meeting approved an amendment to the Bylaws in relation to the shareholders' preferential subscription right, to adapt them to Law 3/2009, of 3 April 2009.
- In 2011, the General Shareholders' Meeting, held on 13 April, approved an amendment to the Corporate Bylaws and to the Regulations of the General Shareholders' Meeting in order to adapt them to the new legal requirements established in Law 12/2010, of 30 June 2010 (essentially affecting the composition, structure and functions of the Audit Committee) and to Legislative Royal Decree 1/2010, of 2 July 2010, approving the Revised Corporate Enterprises Law (fully repealing the Public Limited Companies Law and partially repealing the Securities Market Law).
- In 2012, the General Shareholders' Meeting, held on 19 April, approved changes to the Bylaws and Regulations of the General Shareholders' Meeting to align them with Law 25/2011, of 1 August, partially reforming the Corporate Enterprises Law in relation to the exercise of certain rights of shareholders in listed companies, which has affected the framework applicable to public limited companies and, in particular, to listed public limited companies and,

furthermore, in the case of the Bylaws, in order to eliminate content that was now inadequate following the approval of Law 11/2011, of 20 May, on corporate arbitration.

- In 2013, the General Shareholders' Meeting, held on 18 April, approved the amendment to the Bylaws in order to:
  - Adapt them to the changes introduced by Royal Decree-Law 13/2012, of 30 March, transposing the Directives on the internal electricity and gas markets, and on electronic communications, which also adopts measures to correct deviations for mismatches between the costs and revenues of the electricity and gas sectors, repealing the third additional provision of Law 17/2007, of 4 July, and amending Law 54/1997, of 27 November, regarding several issues that affect the Company. The Company removed specific references to other articles of the Electricity Sector Law, still in force, and included generic mentions of the Electricity Sector Law in order to ensure the force of the Bylaws in the event of possible subsequent amendments to the legislation.
  - Introduce certain safeguards and balances in the event that the Chairman of the Board of Directors simultaneously holds the position of Chief Executive of the Company, in order to reduce as far as possible the risks of concentration of power in a sole person, in line with leading practices and recommendations on Good Corporate Governance.
  - Adapt the regulation of the Audit Committee and the Corporate Responsibility and Governance Committee contained in the Corporate Bylaws to the key practices and recommendations on Good Corporate Governance. Worthy of note in this regard is the new provision that the majority of members of both committees must have the status of Independent Directors.

At present, as regards Corporate Governance, the Company is governed by the internal rules and procedures described below which, being an internal legal regime, go beyond the mere statutory requirements.

These rules, as of 31 December 2013, consisted of:

- The Corporate Bylaws.
- The Regulations of the Shareholders' Meeting.
- The Regulations of the Board of Directors.
- 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 General Shareholders' Meeting (relating to the 2013 Annual General Shareholders' Meeting).
- The Operating Rules of the Electronic Shareholder Forum.
- The Code of Ethics.
  
- **The Corporate Bylaws**

The Corporate Bylaws are constantly being adapted, not only to align them with the legislation, but also to best practices and principles in the area of Corporate Governance, and have been repeatedly amended in recent years by the Annual General Shareholders' Meeting for this purpose.

In accordance with the foregoing, the Annual General Shareholders' Meeting held on 22 May 2008, approved an amendment to the Corporate Bylaws, within the context of the corporate reorganisation, in order to adapt them to the requirements of Law 17/2007, of 4 July 2007, amending Law 54/1997, of 27 November, in order to adapt it to the provisions of Directive 2003/54/EC, of the European Parliament and of the Council, of 26 June 2003, concerning common rules for the internal market in electricity.

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

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

The Annual General Shareholders' Meeting held on 19 April 2012 approved the amendment of the Corporate Bylaws following the legislative amendments adopted on Corporate Governance in 2011, in particular Law 25/2011, of 1 August, on the partial reform of the Corporate Enterprises Law regarding the exercise of certain rights of shareholders in listed companies, and to remove content that was inadequate following the approval of the Arbitration Law 11/2011, of 20 May, on corporate arbitration.

On the basis of the commitment made by the Board towards the majority international investors in the Company, at various meetings held from May 2012 the Corporate Responsibility and Governance Committee discussed the possibility of introducing at the Company measures to counterbalance the concentration of power resulting from the appointment of a single person to the offices of CEO and Chairman of the Board, as is the case at Red Eléctrica; thus, the Company examined the effects and scope of the possible creation of the role of lead independent director, or the possibility of appointing a future CEO that is different to the Executive Chairman, as well as other additional counter measures.

The earlier studies and reports culminated in the submission of a proposal by the Board of Directors to the Annual General Shareholders' Meeting held on 18 April 2013, to amend the Bylaws, which following the approval of the General Meeting introduced a special framework for the role of lead independent director, as well as a more detailed regulation of the possible delegation of powers by the Board to one or more CEOs, also adapting the regulations of the Board Committees to the main international practices and recommendations in the area of Good Corporate Governance. Furthermore, the Company also used this occasion to adapt the Bylaws to the latest legislative reform contained in Law 54/1997, of 27 November, on the Electricity Sector and other related provisions (Articles 2 "Corporate Purpose", 5 "Share Capital", 21 "Functioning of the Board of Directors", 22 "Board Committees and Delegation of Powers", 23 "Audit Committee", 24 "Corporate Responsibility and Governance Committee", 25 "On the Chairman of the Company" and Sole Additional Provision "Special Regime of Sociedad Estatal de Participaciones Industriales", introducing a new Article 25 bis "On the Lead Independent Director").

Moreover, the twenty-third additional provision of Law 54/1997, of 27 November, regulating limits on shareholdings in the Company, remains in effect pursuant to the express stipulations of the sole repealing provision of Law 24/2013, of 26 December,



on the Electricity Sector. These legal provisions on the limitations of the general and special shareholding regime are incorporated in Articles 5 and 14 and in the sole additional provision of the Corporate Bylaws, which have been adapted to the content of the aforementioned twenty-third additional provision of Law 54/1997, of 27 November.

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

The Regulations were initially approved by the General Shareholders' Meeting of 17 July 2003, and amended on numerous occasions; such as the approval by the Annual General Meeting of 22 May 2008, to adapt them to the aforementioned Law 17/2007, of 4 July.

The Regulations lay the basis for the legal framework of shareholders of Red Eléctrica, in keeping with best practices in the area of Corporate Governance, and include all the new means of shareholder protection and participation, with a view to recognising, promoting and strengthening shareholder rights at the Company to the greatest extent possible.

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

The General Shareholders' Meeting held on 19 April 2012 approved, as it did with the Corporate Bylaws, the amendment to the Regulations of the General Shareholders' Meeting in order to adapt them to the legislative changes adopted in the field of Corporate Governance during 2011, in particular, Law 25/2011, of 1 August, on the partial reform of the Corporate Enterprises Law regarding the exercise of certain rights of shareholders in listed companies.

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

As indicated in Article 22 of the Corporate Bylaws, the main purpose of the Regulations of the Board of Directors is to establish the basic rules on the organisation 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 their actions. This is achieved by encouraging the active participation of its directors, 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.

The Board of Directors of Red Eléctrica, at a meeting held on 13 March 2013, approved the amendment to the Regulations of the Board of Directors in order to update their content to reflect the legislative changes which, in recent times, have affected the framework applicable to public limited companies, in line with the reforms of the Bylaws and the Regulations of the General Shareholders' Meeting approved by the Annual General Shareholders' Meeting in 2011 and 2012; align the Company with leading best practices in the area of Corporate Governance, especially at international level, and introduce improvements in the organization and functioning of the Board and its Committees.

On the basis of the above, the Company has considered adopting measures to counterbalance the concentration of the powers of the Chief Executive and the Chairman of the Board of Directors in a sole person, as well as other measures such as the introduction of specific provisions that allow the personal separation of the roles, and the express reservation to the Board of Directors of certain powers and faculties which, for reasons of urgency, had been delegated to the Chairman of the Board in the past. The Company also included, as a new feature, the formalization of certain practices that had already been implemented previously at the Company, such as the annual evaluation of the Board, its Committees and the Chairman, by an independent expert. The Company introduced a novelty involving the alignment of the composition of the Board Committees with the requirements of investors, thereby strengthening their independence, by requiring that they be formed of a majority of independent directors, while retaining the principle of transparency regarding the remuneration policy of the Board and senior management, including the consideration of new components and remuneration structures recently recommended by the investors and the proxy advisors.

➤ **Company Chairman Succession Plan.**

At a meeting held on 27 October 2011, the Board of Directors approved the Succession Plan for the Company Chairman, following the trend of an increasingly common worldwide Corporate Governance practice, involving the preparation and approval by listed companies of succession plans for their CEO or most senior executive, in order to minimise the impact of the handover on the organisation, and aiming to determine a model profile for the candidates and ensure the continuity of the business, thereby reducing as far as possible the possible risks or negative effects of the appointment of a new chairman, until he or she has fully settled in to the role. The Plan establishes a succession procedure that is split into several phases, assigning functions to the managing bodies involved; 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.

It was possible to apply this Plan for the first time in 2012, when Mr. Luis Atienza Serna stepped down as Executive Chairman of the Company, in favour of Mr. Folgado José Blanco, who had already been sitting on the Board of Directors as an independent director since 2008, which facilitated the handover to the new Chairman, whose independent judgement, knowledge of the Company and the industry, as well as his prior experience, leadership and capacity for dialogue with the energy regulator, were notable qualities.

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

This was approved by the Board of Directors on 25 June 2009. At a meeting held on 30 June 2011 the Board of Directors approved an update to the Code in order to adapt the Internal Code of Conduct on the Securities Market to the new corporate structure of the Group, and to record the change of name of the current Corporate Responsibility and Governance Committee. At its meeting on 26 July 2012, the Board of Directors approved a new change 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 during which certain persons with access to information on these results are prohibited from transactions with the Company's securities.

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

The Board of Directors meeting held on 13 March 2013 approved the rules regarding voting and proxies and the right to information using electronic means at the Annual General Shareholders' Meeting held on 18 April 2013. The procedure, as in previous years, was once again a success, given that 320 shareholders holding 99,971 shares were able to exercise their right to vote or delegate electronically, meaning that 7.85% of the 4,078 shareholders present or represented at the General Meeting were able to participate electronically.

➤ **The Operating Rules of the Electronic Shareholder Forum.**

The Operating Rules of the Electronic Shareholder Forum were approved by the Board of Directors at its meeting of 13 March 2013, on the same terms and conditions (except for minimum formal adjustments) as those approved by the Board in previous years.

The Electronic Shareholder Forum deployed by RED ELÉCTRICA CORPORACIÓN, S.A. on its website -www.ree.es- on the occasion of its Annual General Shareholders' Meetings, responds to the requirement established in the last paragraph of Article 117.2 of Law 24/1988, of 28 July, on the Securities Market, introduced by Law 12/2010, of 30 June, and Article 539.2 of the revised text of the Corporate Enterprises Law (LSC), approved by Royal Legislative Decree 1/2010, of 2 July.

The Electronic Shareholder Forum aims to facilitate communication between the shareholders of the Company (individuals, natural persons or legal entities, and the voluntary associations they may form) on the occasion of the Company's General Shareholders' Meeting. Shareholders have the possibility of sending, for publication on the Forum, communications in accordance with the Law, together with their contact details, thereby enabling the shareholders to communicate with each other.

➤ **The Code of Ethics.**

The origins of the Company's Code of Ethics date back to 1987, in which year it adopted the so-called Basic principles of action, which contained an initial set of values to be shared by the organization and which were later reinforced in the Code of Ethics and Corporate Values approved in 2007. Financial year 2013 represents another milestone for Red Eléctrica in the management of business ethics, as discussed below.

The Code of Ethics of the Red Eléctrica Group aims to bring together a set of principles and recommendations regarding its conduct, the application of which will contribute to ethical and responsible management in the business activities of Group companies, and in the relationships established with the various stakeholders.

The Code of Ethics is one of the main elements of Corporate Responsibility management at the company. It constitutes the main foundation for development of the corporate values that the Company seeks to strengthen between its members and includes explicit models and conduct guidelines to be followed by all members.

The Code is applicable to all persons working at the Red Eléctrica Group in the performance of their duties and responsibilities, and in all of the professional fields in which they represent the Company, including directors, managers and employees.

It applies to majority-owned companies of the Group, regardless of their geographic location, and to those countries where they may be providing professional services, consultancy or any other activity related to the Group.

Its proper application ensures that the results of the Red Eléctrica Group are achieved while at the same time respecting the law and protecting the reputation the Company wishes to transmit both domestically and abroad.

The Code of Ethics is a regulatory instrument for establishing, in a general way, the conduct guidelines in the different professional spheres in which the employees of the Red Eléctrica Group are active. It is intended to serve as a general guideline when making decisions in certain situations in which the professionals of the Red Eléctrica Group may find themselves.

The company has appointed an ethics manager to receive and to respond to any questions that may arise and to collect, analyze and resolve on the various complaints received. The appointed person is Rafael García de Diego Barber, General Secretary of Red Red Eléctrica and of its Board of Directors. This role, which has a direct relationship with the Chairman and the Board of Directors, is responsible for maintaining the confidentiality of business processes and is responsible for the development, consolidation and continuous improvement of the management of the Code of Ethics of Red Eléctrica.

The Board of Directors, at its meeting of 28 May 2013, approved the amendment to the Code of Ethics. This new edition of the Code of Ethics has been developed with the aim of taking on board the requirements of stakeholders in the Company and society at large, in addition to the recommendations of the most reputed international organizations in this field. It represents a firm commitment by the Company to ethical management as a driver of its brand and reputation.

Shareholders, investors, clients, suppliers, the tertiary sector, analysts and the general public are demanding ever greater levels of accountability from companies, and providing an effective response to such demands is key to its reputation, where each person, through their activities and the relationships they establish with these groups, may influence the reputation and the image that Red Eléctrica wishes to convey both domestically and abroad.

With the changes introduced, the Company is looking to bring together the best practices identified at international level, adjust the scope and content of the materials covered in the Code of Ethics and adapt the ethical management system to the contents of the latest version of the Criminal Code.

The Code of Ethics has two parts: one on the corporate values and another on conduct guidelines and commitments. The corporate values have been reduced from 10 to 5, and are as follows:

- reliability

- accountability
- environmental awareness
- leadership and creativity
- respect

The newly introduced commitments relate to:

- eradication of coerced labour
- right to privacy
- ban on contributions to political parties
- control of donations and sponsorships
- control of activities in tax havens
- responsible relationship with lobbyists
- conservation of biodiversity
- protection of ethnic minorities

Throughout this process, the Company has received expert advice in the field of business ethics, on the basis of the contributions made by its stakeholders, in accordance with best management practices in business ethics.

The 2012 Annual Report of the Ethics Manager was approved on 25 July 2013. The Report describes the actions taken by the Company to raise awareness of the importance of the Code of Ethics and of the procedure for dealing with queries and complaints. The queries received are also listed, the majority of which related to the way in which the commitments stated 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.

### **TITLE III - MAIN CORPORATE GOVERNANCE ASPECTS AND PRINCIPLES AT RED ELÉCTRICA.**

#### **CHAPTER I.- BASIC CORPORATE GOVERNANCE PRINCIPLES AT RED ELÉCTRICA**

The basic Corporate Governance principles at Red Eléctrica are based on the external and internal legal framework described above, as well as on the best international practices in the area of Corporate Governance. They are based on the policies, practices and recommendations of foreign investors, their proxy advisors and international organizations such as the OECD; and domestically, on the Unified Code of Good Governance.

There follows a summary of the best practices adopted by the Company, grouped by theme, each of which is described in greater detail later in this document.

##### **• The Board of Directors:**

- Low number of directors.
- A participative and proactive board.
- A percentage of independent directors (63.6%) greater than the international requirements.
- A single chief executive.

- 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 (a reservation that has been extended in 2013 on the amendment of the Regulations of the Board of Directors).
- The responsibilities that cannot be delegated cannot be carried out by the executive director or the Board Committees.
- The Board of Directors conducts an annual evaluation of its own functioning, of that of the Board Committees and of the Board Chairman, and periodically solicits the advice of an external specialist, as has been the case in all the processes conducted since 2011.
- 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 without an adverse impact on the corporate interest or on the company's business, which eased the 2012 handover.
- The Board of Directors has taken on board the best practice recommendations in the area of 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 the IBEX 35 companies. The Board of Directors prepares and approves an annual gender diversity report, which this year has been made available on the Company's website.
- The Board Chairman is also the chief executive of the Company, by express decision of the Board of Directors and of the General Shareholders' Meeting, pursuant to Article 25 of the Corporate Bylaws. Nevertheless, following the amendment of the Bylaws passed in 2013, the said Bylaws stipulate that one or more CEOs may be appointed.
- The powers and responsibilities of the chief executive are limited by:
  - The legal reservation of non-delegable responsibilities to 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.
  - The functions and responsibilities attributed to the Board Committees in the Corporate Bylaws and in the Regulations of the Board of Directors.
  - The responsibilities of the lead independent director.
- A high percentage of attendance and dedication to the exercise of their responsibilities on the part of the directors.
- Use of new technologies to facilitate the operation of the Board and provide directors with information and documentation: The Directors' Portal, subject to review and upgrade in 2013/2014.

- **The lead independent director**

- Appointed from among the independent directors, at the proposal of the Corporate Responsibility and Governance Committee.
- Their main task is to coordinate the shared positions of the independent directors and to serve as a channel for dialogue between such positions before the Chairman of the Board of Directors, the Board and its Committees.
- The term of office is three years and is subject to reappointment.
- This role currently lies with the independent director Carmen Gómez de Barreda Tous de Monsalve, by resolution of the Board of Directors on 28 May 2013.
- It serves as a counterweight to the concentration of power in the hands of the Chairman of the Board of Directors when the latter is also the chief executive of the Company.
- The lead independent director convenes and chairs the meetings of the independent directors.
- The roles and responsibilities of the lead independent director are set forth in Article 25 bis of the Bylaws and in Article 9 bis of the Regulations of the Board of Directors.

- **The Board Committees:**

- Committees formed by the Board of Directors, with a highly 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 exit of the executive director from the Corporate Responsibility and Governance Committee.
- The Committees are now formed of three members, two of whom are independent directors. Financial year 2013 saw the formal adaptation, under the Regulations of the Board of Directors, of the composition of the Committees to the demands of investors, in order to strengthen their independence. It introduced the requirement that there be a majority of independent directors on both Committees.
- Chaired by independent directors, as envisaged in the Corporate Bylaws and the Regulations of the Board of Directors, which are 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.
- No directors belong to both Committees, which ensures their total independence.
- The Committees hold regular monthly meetings and are genuine specialist technical bodies that provide immense 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 confer a stable legal framework thereto.

• **The remuneration policy of the Board of Directors and the chief executive:**

- There is total transparency and openness in the breakdown of each Director's individual remuneration.
- The maximum limit of the overall annual remuneration 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 General Shareholders' Meeting).
- The Board remuneration and the Board Remuneration Policy Report are voluntarily submitted for approval (binding vote) to the General Shareholders' Meeting as two separate and independent items on the Agenda.
- In 2013, the total remuneration of the Board of Directors was divided into two different components, increasing the weight of the fixed remuneration at the expense of the excessive weighting of the variable remuneration:
  - Fixed (two thirds): Annual Fixed Remuneration and Allowances for attending Board and Board Committee meetings.
  - Variable (one third): Amount linked to the attainment of the targets and strategies of the Company, previously established by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee, and approved by the General Shareholders' Meeting.

The targets and criteria determining the variable remuneration 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.

- The Board of Director's total remuneration, including all of these items, remained the same in 2013 compared to 2012.
- For the year 2014: At the same meeting as that held for the approval of this Annual Corporate Governance Report, the Board of Directors approved a new remuneration structure for the Board, in view of the trends followed by international shareholders and their advisors, and the market study carried out by the Company with the support of an international consultant. The new structure replaces the variable remuneration for a fixed remuneration, leading to the elimination of the variable component from the Board's remuneration, recognizing instead a new remuneration for the Chairmen of the Board Committees and for the lead independent director.
- Without prejudice to the remuneration agreed for the aforementioned Chairmen of the Board Committees and for the role of lead independent director, in 2014 the total remuneration of the Board of Directors for the other items have been maintained at the same level as in 2013.



- The other principles on which the Board remuneration policy is based are:
  - Balance and Moderation.
  - Link to actual dedication.
  - 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 the Directors' independence (particularly in the case of independent directors).
  - Transparency. This includes the remuneration structures and elements most demanded by the investors, and aims to further the objective of achieving maximum transparency.
  - Alignment with general practices at listed companies.
- The remuneration of the chief executive is divided into a fixed part and a variable part.
- The amount of the remuneration of the chief executive is less than that of comparable companies, according to an international study conducted by the Company in 2013; however, in 2012 it decreased by around 5% compared to 2011, and in 2013 and 2014 it remains unchanged, as explained in the annual report on remuneration and remuneration policy of the Board of the Company.
- The chief executive's variable annual remuneration for the executive role is limited to 50% of his fixed annual remuneration as chief executive.
- The annual variable remuneration of the chief executive also responds to strategies, objectives and criteria established in the Strategic Plan, and is determined by the Corporate Responsibility and Governance Committee, after the relevant assessment at year end of the quantifiable and predetermined targets of the Committee.
- Under the Special 25th Anniversary Plan 2009-2013, in 2009 a long-term variable remuneration was implemented for the chief executive linked to the achievement of certain strategies and predetermined targets set by the Corporate Responsibility and Governance Committee. The said Special Plan ended in 2013 and the Corporate Responsibility and Governance Committee has performed the relevant assessment of the targets (the details of the evaluation of his achievement of the predetermined targets have been included in the Annual Report on remuneration and remuneration policy of the Board). In 2014 different alternatives are being analyzed for the long-term remuneration of the chief executive and senior executives, taking into account the social, economic, and legal aspects of Corporate Governance and other aspects thereof, although the analysis phase is still open since it believes that it is necessary to study in greater detail the various possible multi-annual remuneration models before taking any decision, all in tandem with the review of the Company's Strategic Plan.

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

In recent years, Red Eléctrica has undergone significant development in terms of transparency and good governance. Good governance requires that the so-called stakeholders receive regular and timely access to relevant, sufficient and reliable information, both in relation to the rules and implementation of Corporate Governance at the Company, and the results obtained.

In this sense, Red Eléctrica, in addition to regularly informing the market throughout 2013 via regulatory announcements and activities with institutional investors, has also posted all the relevant information and communications on its corporate website.

The best practices followed in 2013 in the area of Corporate Governance, focusing on dialogue and engagement with shareholders, were:

- Enhancement, according to international standards, of the information contained on the corporate website in the area of Corporate Governance.
- Participation in international forums and initiatives on Corporate Governance (ICGN , Emisores Españoles).
- Roadshows on Corporate Governance with foreign shareholders and proxy advisors.
- Expert advice on international Corporate Governance.
- External Evaluation of the Board.

Worthy of note is its admittance as a member (the ever first Spanish listed company) to the global Corporate Governance organization known as the International Corporate Governance Network (ICGN), which brings together foreign institutional investors, corporations, regulators, academics, proxy advisors and other specialists in the field.

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

The Company also regularly organises road shows, offered by the Senior Management, at the main financial centres in Spain and abroad where there is a high concentration of institutional investors, to inform them of its activities and business developments, in an attempt to forge closer ties with these investors.

Given the high percentage of foreign institutional investors (around 70%), in 2013 as in previous years, the Company implemented a programme of visits to investors and proxy advisors to provide relevant and up-to-date information, and to explain its Corporate Governance activities and practices. These visits aimed to establish adequate mechanisms for the regular exchange of information with domestic and foreign investors and leading proxy advisors, in order to continue to adapt to the most advanced international Corporate Governance standards. Noteworthy in 2013 was the participation of the Chairman of the Corporate Responsibility and Governance Committee during visits to proxy advisors, in order to enhance the level of commitment to foreign shareholders.

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

• **Independence of the External Auditor:**

In 2012, at its Annual General Meeting held on 19 April 2012, the Company adapted its Corporate Bylaws in order, among others, to align them with the aforementioned Law 12/2010, which aims to reinforce the competencies of the Audit Committee in verifying the independence of the External Auditor. The amendment in question is reflected in Article 14 of the Regulations of the Board of Directors, which was approved by the Board of Directors at its meeting held on 13 March 2013.

The responsibilities of the Audit Committee, as set out in the said regulatory provision, are those of receiving information on the services provided to the Company and the Group by the External Auditor, other than those related to the external audit services (which are reported regularly to the markets through the relevant sections of the ACGR, Official Annex, according to the template of Annex I of Circular 5/2013, paragraph C.1.37). Nevertheless, the general approach taken by the Company is not to contract the External Auditor for these types of services from the date on which it is appointed by the General Shareholders' Meeting, unless there are exceptional reasons to justify contracting these services from it, which must be adequately explained in the Company's annual public reporting. The intended purpose, as provided in the new paragraph of Article 45.3 of the Regulations of the Board of Directors, is to seek to minimize the contracting of these services to the extent possible.

Also, when there are contractual obligations between the Company and the External Auditor that were acquired prior to its appointment, the Annual Corporate Governance Report explains the prior origin of these obligations that will still generate payments following the date of its appointment (see section C.1.37 of the Official Annex to this Report).

In addition, the Annual General Shareholders' Meeting of 18 April 2013, at the proposal of the Board of Directors, appointed the company KPMG Auditores, S.L. as the new external auditor of the Company and its Group, since the previous auditor, PriceWaterhouseCoopers (PwC), had occupied the role of external auditor of Red Eléctrica Corporación, S.A. and its Consolidated Group for the past seven years and, on the basis of the internal policies of the Red Eléctrica Group, which recommend periodically changing the external auditor in keeping with international best practices in Corporate Governance, it decided to implement this change.

## **CHAPTER II.- SHAREHOLDER STRUCTURE.**

The Company's capital is comprised of 135,270,000 fully subscribed and paid-up shares belonging to 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 31 December 2013, the Sociedad Estatal de Participaciones Industriales or "SEPI" directly owned a significant stake in the Company, holding 27,054,000 shares representing 20% of the 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, in accordance with article 42 of the Commercial Code.

The equity of the Company is comprised of a 20% shareholding owned by SEPI, with the remaining 80% being free float, although, as explained below, no other shareholder may own a stake larger than 5%.

Within the free float, worthy of note is the high percentage of foreign shareholders, in particular, of institutional investors, who at 31 December 2012, represented almost 70% of the share capital (of which around 60% are located in the UK and USA), 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 4 July, introduced various changes affecting the Company's shareholders. These amendments had, among other aims, that of guaranteeing the independence of the Company vis-a-vis all other electricity sector activities and agents, given that the activities developed by Red Eléctrica (transport of electricity and operation of the electricity system) are considered by legislators to be an essential service. Royal Decree-Law 13/2012, of 30 March, transposing a number of directives, among them, Directive 2009/72, of 13 July, which stipulates the mandatory independence of Distributors and Operators of European electricity systems, endorses the legal limitations on shareholdings and political rights applicable to the Company's shareholders, incorporating a number of additional restrictions on companies that perform generation or marketing functions. Royal Decree-Law 13/2012, of 30 March, amended the second paragraph of the twenty-third additional provision and Article 34.1 of Law 54/1997, of 27 November. An additional provision that remains in effect pursuant to the express stipulation of the repealing provision of Law 24/2013, of 26 December, on the Electricity Sector.

The equity limits stated in the twenty-third additional provision of Law 54/1997, of 27 November, are:

- Any individual or legal entity may hold shares in the Company, provided that the sum of their direct and indirect interests in the Company's capital does not exceed 5% of the capital and they do not hold more than three percent of the 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 the voting rights.
- The special regime for SEPI is maintained, whereby it must hold at least ten percent (10%) of the share 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 22 June 2012, on the simplification of the reporting and documentation obligations for mergers and spin-offs of corporate enterprises, redrafts certain aspects of the Corporate Enterprises Law (article 257), affecting, among others, the possibility of introducing bylaw restrictions on voting rights, after these were expressly prohibited for listed companies by Law 12/2010, of 30 June. This does not affect the Company, as it sets out a general regime for listed companies, whereas the Company is subject to the special limitations set out in the aforementioned Law 54/1997, of 27 November.

- **Corporate website.**

This year we have included within the chapter devoted to the Shareholders' Equity, a special section referring to a basic and modern tool for communicating with shareholders: Corporate website.

Apart from the legal and regulatory requirements regarding the website, which are addressed in other sections of this report, it should be highlighted here how important it is for Red Eléctrica to continue to adapt and evolve in the area of Corporate Governance; in this sense it included in the Annual Corporate Governance Report for 2012, approved by the Board of Directors on 26 February 2013, the desirability of strengthening, according to international standards, the information contained on its Corporate Governance website, and of introducing improvements for its easier identification, understanding and use by international shareholders and investors (Title IV of the ACGR 2012, "Prospects for Corporate Governance at Red Eléctrica").

Red Eléctrica's international consultants in the area of Corporate Governance have confirmed that foreign institutional investors, which are so important to the Company, in places such as the UK, France, Holland, Germany and the United States, have highlighted the difficulty that they face in analyzing effectively the information relating to the Corporate Governance structure that is made available on the corporate websites of Spanish listed companies.

In view of the opportunity for improvement, in 2013 the Company has implemented a project to update and improve the corporate website, in order to incorporate the latest practices at enterprise level, also taking into account the requirements and recommendations of the regulatory environment applicable to listed companies; furthermore, within the framework of this project, it has also undertaken an analysis of the Corporate Governance sections of the website, in order to incorporate leading international standards in terms of structure and content. The publication of the new web page, with its new structure and design, took place in October.

Worthy of note is the creation of the new Corporate Governance section, located towards the top of the home page menu, in which the most important sections for the Company are located. The improvement of the Corporate Governance aspects focused on its structure and the way in which the information is presented, rather than expanding the content of the information published on the website, which was already very extensive, but spread out and sometimes difficult to locate and understand.

The Company firmly intends to continue to improve and adapt the corporate website on a permanent basis, as a channel for communication, dialogue and engagement with shareholders.

### **CHAPTER III.- THE GENERAL SHAREHOLDERS' MEETING**

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

Its resolutions, adopted pursuant to the Regulations of the General Shareholders' Meeting and the Corporate Bylaws, are binding on all shareholders, without prejudice to their legal right to separation. 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 appropriation of profits.
- Appointing and removing Directors, ratifying, as necessary, their appointment by co-option, and appointing and reappointing the auditors.
- Approving programs or authorizing transactions involving treasury stock.
- Approving the establishment of remuneration systems linked to the share price for Directors and, as the case may be, the management team.
- Resolving to issue debentures, increase or reduce share capital, change the legal form, merge, spin off or wind up the Company, and make any amendment to the Corporate Bylaws.
- Authorizing the Board of Directors to perform a capital increase pursuant to the provisions of the Corporate Enterprises Law.
- Approving operation whose effect would be equivalent to the modification of the Company's corporate purpose.

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

For some time now, resolution proposals have been published in full, in Spanish and in English, upon the call of the Shareholders' Meeting, with all the 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 the following information, among others, is posted on it:

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

The Annual General Meeting of 19 April 2012, approved an amendment to the Bylaws and to the Regulations of the General Shareholders' Meeting, which sought to adapt the legal regime of the Shareholders' Meeting to Law 25/2011 of 1 August, partially reforming the Corporate Enterprises Law, and incorporating Directive 2007/36/EC, of the European Parliament and of the Council, of 11 July, 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; in particular, as regards the information that must be published on the website when calling a General Shareholders' Meeting. Despite the fact that, in large part, such information was already published on the website of the Company, the Annual General Shareholders' Meeting held on 19 April 2012, approved the modification of the Regulations of the Shareholders' Meeting to incorporate the content required under the Law into the appropriate Articles.

Law 25/2011 granted greater importance to the corporate website, introducing a new Article 11 bis into the Corporate Enterprises Law, which regulates the electronic headquarters 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 of the Shareholders' Meeting, something which RED ELÉCTRICA CORPORACIÓN, S.A. has been doing for a number of years.

The said General Shareholders' Meeting held on 19 April 2012 ratified the creation of the corporate website of the Company at the domain "www.ree.es", for the purposes of the provisions of Article 11 bis of the Revised Corporate Enterprises Law.

Law 1/2012, of 22 June, on the simplification of the reporting and documentation requirements for mergers and spin-offs of corporate enterprises, which gives a new wording to certain provisions of the Corporate Enterprises Law, affected the regulation of certain aspects of the website of listed companies (Articles 11 bis, 11 ter and 11 quater), which the Internal Rules on Corporate Governance of the Company already incorporate.

The Order ECC/461/2013, of 20 March, which determines the content and structure of the annual corporate governance report, the annual report on remuneration and other reporting document of listed companies, describes the relevant information to be included on the websites of listed companies; however, the latter has been analyzed in depth by the Company and it has concluded that the current corporate website not only contains all the information identified in the said Order, but it has also been expanded and improved in 2013, as was already mentioned elsewhere in this report.

Furthermore, also worthy of note are the following actions conducted to facilitate the exercise of the right to information of the shareholders at the General Shareholders' Meeting:

- 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 regarding 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 that may arise, communicating this to the shareholders during the Shareholders' Meeting.
- The items included on the agenda for the Shareholders' Meeting are provided in as much detail as possible.
- Separate voting on each item is permitted, including 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 also 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.
- In 2012, the review of management processes and the results of the voting at the Annual General Shareholders' Meeting, was commissioned by the Company to an independent consultant, Deloitte, which in its final report indicated certain specific strengths of the Company while also making certain suggestions for improvement and recommendations to be followed.
- In 2013, Deloitte performed an audit of the management processes of the Annual General Shareholders' Meeting, to improve the guarantee of shareholder rights at the Meeting. The auditor's reports were published on the website on the same day as the holding of the General Shareholders' Meeting.

Regarding the rights of shareholders, these are regulated in Article 15 of the Bylaws, which refers specifically to the right to information and attendance at the General Shareholders' Meeting, and in articles 6 to 10 of the Regulations of the Board of Directors. 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. The said article establishes the obligation to make documentation and information relating to the Agenda available to shareholders, free of charge, both at the Shareholder Information Office and on the Company website.

In addition, during the meeting, shareholders may 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.

The Company maintains an open, free-flowing and accessible dialogue 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 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 appropriation of profit 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 Annual Report on Remunerations and Remuneration Policy of the Board of Directors.
- The environmental report.
- Any other report whose inclusion is obligatory or may be 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 a certificate made out 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 the approval of the adaptation of its content to Law 25/2011, of 1 August, by the General Shareholders' Meeting held on 19 April 2012.

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

Company directors and executives are required to attend General 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 keeping with the regime established by Law 26/2003, of 17 July 2003, regarding the development of shareholder rights and the rules regarding the organisation 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 certain adjustments and provisions aimed at strengthening the right of shareholders to participate at the General Shareholders' Meeting, which justified the adaptation thereto of the Regulation of the General Shareholders' Meeting and the Bylaws, at the General Shareholders' Meeting held on 19 April 2012.

The Regulations of the Shareholders' Meeting thus provide that shareholders owning 5% of the share capital may request that the Board, prior to issuing the call, include any item on the Agenda at 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 submit proposals in relation to the matters on the Agenda, in addition to making suggestions on the activities and interests of the Company which, in its view, should be discussed at the General 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](http://www.ree.es). Since then, the Company has allowed shareholders to exercise their voting rights electronically at all Shareholders' Meetings.

In line with the use by the shareholders of advanced electronic channels to exercise their rights, the Board of Directors, at its meeting of 13 March 2013, approved a set of rules on remote voting and proxies and the exercise of the right to information via electronic means for the Annual General Shareholders' Meeting held on 18 April 2013. The results were satisfactory, given that 320 shareholders holding 99,971 shares exercised their right to vote or delegate electronically. This meant that 7.84% of the 4,078 shareholders present in person or by proxy at the Meeting participated in the Meeting by electronic means.

Furthermore, both the General Shareholders' Meeting and presentations to analysts are transmitted in real time via the website of the Company. The presentations are available on the Company website. The General Shareholders' Meeting has been broadcast live since 2006, by means of the "video webcast" system, while a simultaneous translation into English was also provided.

In 2011 we launched the Electronic Shareholder Forum to facilitate communication between the shareholders of Red Eléctrica in order to be able to publish proposals to supplement the Agenda in the General Meeting call notice, issue requests for support of such proposals, present initiatives to achieve the percentage necessary to exercise a minority right as provided by law or make offers or solicitations of voluntary representation.

This tool was incorporated into the Regulations of the General Shareholders' Meeting, via Article 8.4, by means of a resolution adopted by the General Shareholders' Meeting of 13 April 2011. Thus, we have included the regulatory requirements of Article 539 of the Corporate Enterprises Law.

In 2013, the Company also made the Electronic Shareholder Forum available to shareholders, following the approval of the Rules of Operation of the Board of Directors at its meeting held on 13 March 2013. The Company has continued to use social networks in 2013 (Facebook and Twiter) to disseminate and report the Annual General Shareholders' Meeting.

#### **CHAPTER IV.- THE BOARD OF DIRECTORS**

- **Organization, powers and composition.**

As of 31 December 2013, the Board of Directors was composed of 11 directors (1 executive director, 3 proprietary 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 to 26, inclusive) and in the Regulations of the Board of Directors.

The Board approves the annual meeting calendar at the end of the preceding year and recognises the right of directors to make amendments to the Agenda of each meeting, provided sufficiently in advance (in practice, at least six 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 in the terms established by law, in the Corporate Bylaws and in the 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 has expressly reserved (Article 5 of the Regulations of the Board of Directors), on a non-delegable basis, certain direct responsibilities to be exercised only by it.

In this regard, among the measures to counterbalance the concentration of power in the chief executive and chairman of the Board of Directors of the Company (which were adopted in 2013 when the Regulations of the Board of Directors were amended), worthy of note is the amendment to Article 5 to broaden the express reservation by the Board of Directors of certain powers and faculties which, for reasons of urgency, had previously been delegated to the Chairman of the Board.

Following the amendment of the said provision, the responsibilities expressly reserved by the Board are:

- 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, and monitoring of the degree of compliance therewith throughout the year.
  - 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 remuneration 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 various types of risk (operational, technological, financial, legal and reputational, among others) that the Company and the Group face, including, among financial and economic risks, contingent liabilities and other off-balance sheet risks.
    - The setting of the level of risk that the Company deems acceptable.
    - Planned measures to mitigate the impact of identified risks, in the event that they materialise.
    - 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 of the policy of dialogue with investors and shareholders.
  - ix) Approval of the policy regarding appointments and the evaluation of candidates to the Board of Directors.
  - x) Approval of the policy regarding the performance evaluation of the Board and its directors.

- xi) Approval of the policy regarding the dissemination of the Corporate Governance, Corporate Responsibility, remuneration and risk management practices.
- xii) Approval of the policy regarding the contracting of non-audit services with the External Auditor
- xiii) Approval and, if applicable, proposal to the Shareholders' Meeting of dividend and treasury stock policies, and in particular, the limits thereof.
- xiv) Those specifically stipulated in these Regulations.

b) The following decisions:

- i) Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contractual conditions.
- ii) The financial reporting which, due to its status as a listed company, the Company must periodically make to the public, or which it submit to the regulatory or market supervision bodies for publication.
- iii) Investments or transactions deemed to be strategic by virtue of their 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 the 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 and the Chief Executive of his functions, on the basis of the report of the Corporate Responsibility and Governance Committee, in coordination, where appropriate, with the lead independent director.
- ii) The functioning of its Committees, based on the report submitted by the Corporate Responsibility and Governance Committee in coordination, where appropriate, with the lead independent director.

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

The limit of the term of office of the independent directors, in accordance with the recommendations of the UCGG<sup>2</sup>, was set out in the Regulations of the Board at twelve

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<sup>2</sup> Order ECC/461/2013, of 20 March, which determines the content and structure of the annual Corporate Governance report, the annual remuneration report and other reporting instruments of listed Public Limited Companies, savings

years (a limit that was incorporated to the Regulations of the Board in January 2010). 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 statutory term of office for which they were appointed, except where there is sufficient cause, subject to a report by the Corporate Responsibility and Governance Committee.

At 31 December 2013 the Board of Directors of Red Electrica had the following members:

Name of Director	First Appointment	Last Appointment	Position on the Board	Type of Director	Appointment procedure	Board Committee Membership
José Folgado Blanco	22/05/2008	19/04/2012	Chairman	Executive	Annual General Shareholders' Meeting	---
Alfredo Parra García – Moliner <sup>3</sup>	19/04/2012	19/04/2012	Member	External Proprietary (SEPI)	Annual General Shareholders' Meeting	Corporate Responsibility and Governance (member)
Francisco Ruiz Jiménez	19/04/2012	19/04/2012	Member	External Proprietary (SEPI)	Annual General Shareholders' Meeting	---
Fernando Fernández Méndez de Andés	19/04/2012	19/04/2012	Member	External Proprietary (SEPI)	Annual General Shareholders' Meeting	Audit (member)
María Angeles Amador Millán	26/05/2005	18/04/2013	Member	External Independent	Annual General Shareholders' Meeting	Audit (member)
Rui Manuel Janes Cartaxo	20/05/2010	20/05/2010	Member	External Independent	Annual General Shareholders' Meeting	---
Miguel Boyer Salvador	20/05/2010	20/05/2010	Member	External Independent	Annual General Shareholders' Meeting	---
Paloma Sendín de Cáceres	19/04/2012	19/04/2012	Member	External Independent	Annual General Shareholders' Meeting	Audit (chairwoman)
Carmen Gómez de Barreda Tous de Monsalve	19/04/2012	19/04/2012	Member	External Independent	Annual General Shareholders' Meeting	Corporate Responsibility and Governance

banks and other entities issuing securities admitted to trading on official securities markets, has incorporated into the legislation the said prohibition.

<sup>3</sup> At its meeting held on 28 January 2014, the Board of Directors of Red Eléctrica Corporación, S.A. accepted the resignation tendered by Alfredo Parra García-Moliner, from his position as Proprietary Director of Red Eléctrica Corporación, S.A., in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

						(member)
Juan Iranzo Martín	19/04/2012	19/04/2012	Member	External Independent	Annual General Shareholders ' Meeting	Corporate Responsibility and Governance (Chairman)
María José García Beato	29/11/2012	18/04/2013	Member	External Independent	Annual General Shareholders ' Meeting	---

• **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 31 December 2013

**Chairman of the Board and Chief Executive**

**José Folgado Blanco**, born 3 April 1944.

Degree in Economics. Final-year award with special distinction.  
 Doctorate in Economics, Universidad Autónoma de Madrid.

*Currently:*

Member of the Social Board, Universidad Autónoma de Madrid.  
 Chairman of the Board of Directors of Red Eléctrica Corporación, S.A.

*Formerly:*

Tenured Professor of Public Finance and Tax Systems, Universidad Autónoma de Madrid.

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

Medium-Sized Enterprises. Ministry of Economy, since July 2002.

Member of the Spanish Parliament representing the province of Zamora and Vice-Chairman of the Finance Committee since March 2004. Mayor of Tres Cantos (Madrid) since June 2007.

**External Proprietary Director proposed by Sociedad Estatal de Participaciones Industriales (SEPI)**

**Alfredo Parra García-Moliner<sup>4</sup>**, born 22 December 1971.

Law Degree, Universidad de Leon.

Member of the National College of State Attorneys, graduating in 1st place in 1997.

*Currently:*

General Secretary and Director of Sociedad Estatal de Participaciones Industriales (SEPI)

*Formerly:*

State Attorney in the Courts and Tribunals of Madrid.

State Attorney in the Government Attorney's Office, State Legal Service Department, General Litigation Services Division.

Lead State Attorney for Legal Assistance to the Nuclear Safety Board.

State Attorney Coordinating Legal Assistance to the Instituto Cervantes.

State Attorney-Head of the Ministry of Foreign Affairs and Cooperation.

Member of the Committee for the Reform of the Foreign Service.

Secretary of the Board of Directors of the State Corporation for Spanish Cultural Action Abroad, created by resolution of the Ministerial Cabinet, for the organisation and management of international exhibitions and related activities.

Director of Legal Services for Corporación Radio y Televisión Española, S.A.

Author of a number of legal articles and publications.

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<sup>4</sup> At its meeting held on 28 January 2014, the Board of Directors of Red Eléctrica Corporación, S.A. accepted the resignation tendered by Alfredo Parra García-Moliner, from his position as Proprietary Director of Red Eléctrica Corporación, S.A., in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).



**External Proprietary Director proposed by Sociedad Estatal de Participaciones Industriales (SEPI)**

**Francisco Ruiz Jiménez**, born 26 January 1975.

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.

*Currently:*

Director General of the Sociedad Estatal de Participaciones Industriales (SEPI).

*Formerly:*

Worked with the legal chambers of Ignacio Izquierdo del Valle.

Employed by Caja de Ahorros y Pensiones de Barcelona, "La Caixa".  
Credit Institutions Inspector attached to the Directorate General for Supervision of the Bank of Spain, responsible for various functions, 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.

**External Proprietary Director proposed by Sociedad Estatal de Participaciones Industriales (SEPI)**

**Fernando Fernández Méndez de Andrés**, born 10 February 1956.

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.

*Currently:*

International Consultant on macroeconomic, financial and regulatory issues with experience in Europe, Asia, America and Africa.

Chairman of Pividal Consultores.

External Advisor to the Strategy Committee of the Grupo Financiero Arcano.

Collaborator with the Fundación de Estudios Financieros.

Frequent economic commentator and columnist in the media.

Frequent speaker at international conferences and events related to his professional and academic activity, and the author of numerous related articles and publications.

Independent Director of Bankia, S.A.

Independent Director of Banco Financiero y de Ahorro, S.A.U.

*Formerly:*

Principal Economist at the International Monetary Fund.

Chief Economist and Director of the Research Department of Banco Central Hispano (BCH) and Banco Santander

Rector of the Universidad Europea de Madrid and the Universidad Antonio de Nebrija.

Director of the European Business Programme.

Member of the Executive Committee of the Association for European Monetary Union.

Member of the Board of Economists of the Conference Board Europe.

Member of the Permanent Committee of Lead Economists at the Instituto Internacional de Finanzas and the Crisis Prevention and Resolution Working Group, during the 1999-2002 Latin American debt crisis.

Member of the Capital Market's Network on Latin American Financial Issues, organized by the Inter-American Development Bank (IDB)

Member of the Executive Committee of the Instituto de Estudios Económicos.

Member of the Technical Group on Financing of Emerging Economies at the Ministry of Economics and Commerce.

Collaborator with the Instituto de la Mujer (Women's Institute)

Collaborator with the Economic Board of the CEOE and the Confederation of Chambers of Commerce.

**External independent director**

**María Angeles Amador Millán**, born 10 October, 1949.

Law Degree, Universidad Complutense de Madrid

*Currently:*

Practicing attorney.

Member, Advisory Board, Accenture.

*Formerly:*

Technical General Secretary, Ministry of Public Works and Urban Development.

Undersecretary, Ministry of Health and Consumer Affairs.

Minister for Health and Consumer Affairs.

Member of Parliament for Segovia.

Member of Parliament for Madrid.

Deputy Chairwoman, Constitutional Committee, Lower House of Parliament.

**External independent director**

**Rui Manuel Janes Cartaxo**, born 9 July 1952.

Degree in Economics, Universidad Técnica de Lisboa.

*Currently:*

Chairman and CEO of REN-REDES ENERGÉTICAS NACIONAIS, SGPS.

*Formerly:*

Lecturer, Instituto Superior de Economía y Gestión (ISEG).

Economist, research area, Banco de Portugal.

Consultant, OECD Department of Research (Paris).

Financial Director, Ministry of Finance.

Executive Director, CN-Comunicacoes Nacionais, SGPS, S.A.

Executive Director, TRANSGÁS, S.A.

CEO of GALP POWER.

Executive Director, GALP ENERGÍA SGPS.

Assistant to the Portuguese Minister of Economy and Innovation.  
CFO of REN-REDES ENERGÉTICAS NACIONAIS, SGPS.

**External independent director**

**Miguel Boyer Salvador**, born 5 February 1939.

Degree in Physics, Degree in Economics and Political Sciences with Distinction from the University of Madrid.

*Formerly:*

Professor of physics at the School of Telecommunications Engineering (1976-1977).

Professor of Macroeconomics at the Autonomous University of Madrid (1978-79).

Economist by competitive examination of the Research Department of the Bank of Spain (1969; 1979-1981).

Director of Studies, Instituto Nacional Industria (I.N.I.) (1974).

Director of Strategic Planning, Explosivos Río Tinto. (1975-1978)

Member of Parliament for Jaen (1979-80).

Director of Planning and Studies, Instituto Nacional de Hidrocarburos (1981).

Minister for Economy, Finance and Trade (1982-1985).

Chairman, Banco Exterior de España (1985-1988).

Member of the Review Committee of the European Organization for Nuclear Research (CERN, Geneva) (1986-87).

Member -as one of the two experts- of the Committee of Experts for the Study of the Economic and Monetary Union of Europe ("Delors Committee") (1988).

Central Bank Chairman (1988-until dissolved).

Chairman and CEO of Grucycsa (1990-93).

Vice-Chairman of FCC Construction (1993-1999).

Chairman, Compañía Logística de Hidrocarburos (CLH) (1999-2005).

Member of the International Advisory Board of Robert Bosch, GmbH (1989-2011).

Chairman of Corporación Financiera Issos (2007-2009).

Representative of Corporación Financiera Issos, on the Board of Directors of Reyal-Urbis, S.A. (2006 - March 2013).

**External independent director**

**Paloma Sendín de Cáceres**, born 19 September, 1951.

Graduate in Economics and Business Science, Universidad Autónoma de Madrid.

Trade Expert and State Economist. State Diploma in Trade.

*Currently:*

Member of the Advisory Board of the Technical School of Mines and Energy of Madrid.

Advisory Committee Member of the Fundación para Estudios sobre la Energía.

*Formerly:*

Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin.

Director General of Administration and International Relations for the Organisation of Ibero-American States for Education, Science and Culture (OEI).

Member of the Nuclear Safety Board (CSN) and member of a number of national and international Committees, representing the CSN before the OECD and other bodies.

Director General of Mines.

Chairman of the National Mining Safety Commission.

Director General of the Institute for Restructuring of the Mining Industry and Alternative Development, reporting to the Ministry of Industry and Energy.

Managing Director of Promotion at ICEX.

Member and representative of Spain on various EC committees and workgroups.

Member of the Organising Committee of the European Union Conference on Stakeholders.

Member of the Organising Committee of the 2nd Forum on the Implications of the New Recommendations of the International Commission on Radiological Protection.

Director of Sociedad Estatal de Participaciones Industriales (SEPI) (1997-2000).

Director, Hulleras del Norte (HUNOSA).

Director, Banco Exterior de España.

Director, Compañía Logística de Hidrocarburos (CLH).

Director, FOCOEX.

Director, Tabacos de Filipinas.

Director, SIRECOX.

Director, Centro para el Desarrollo Tecnológico Industrial (CDTI).

Director, Fábrica Nacional de Moneda y Timbre (FNMT).

Director, Tabatrade.

Director, Banco Exterior de España, UK branch.

Author of numerous articles and publications related to her professional activity.

Speaker at conferences and events related to her professional activity in Spain, Europe, America and Asia.

**External independent director (lead independent director)**

**Carmen Gómez de Barreda Tous de Monsalve**, born 20 May 1968.

Doctorate in Economics and Business Science from the Universidad Pontificia de Comillas (ICADE).

Master in Business from the IESE (Executive MBA), University of Navarra.

*Currently:*

Director General of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)

*Formerly:*

Head of the Cogeneration Department, Business Management, Enagás.

Head of the International, Petrochemical and Marketing Departments of Repsol.

Director of Services Development at Union Fenosa.

Deputy Director of Oil Markets at Comisión Nacional de Energía (CNE).

Institutional Relations and Communications Manager for BP Oil España.

Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).

Representative on various international working groups on issues of energy regulation and security of supply (ARIAE and CEER). Professor at lectures and/or presentations on different Master's Courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club)

**External independent director**

**Juan Iranzo Martín**, born 26 November 1956.

Graduate in Economic and Business Science from the Universidad Complutense de Madrid.

Doctor in Economic Science from the Universidad Complutense de Madrid.

*Currently:*

Professor of Applied Economics at UNED.

Deacon-Chairman of the College of Economists of Madrid.

CUNEF lecturer.

Academician of the Royal Academy of Doctors of Spain.

Director, Grupo SANJOSE.

Director, FERTIBERIA.

Member, Advisory Board, CAP GEMINI.

Chairman of the Club de Consejeros de España.

Lecturer on the Master's in "Advanced Corporate Responsibility Management Programme" at the Instituto de Empresa IE Business School.

Member of the Health Advisory Board and the Permanent Committee of the Board of the Ministry of Health, Social Services and Equality.

Member of the Board of Directors of Fujitsu.

Member of the Economic and Social Council of Spain (CES) as an expert consultant.

*Formerly:*

Management Control Manager for ENUSA.

External Relations Manager and Economist at Fundación FIES, CECA.

Director of Studies at Instituto de Estudios Económicos (IEE).

Director General of Instituto de Estudios Económicos (IEE).

Lecturer in Economic Structure at various universities.

Member of the Special Commission for Transparency and Safety in Financial Markets and Listed Companies (Aldama Commission).

Member of the Supervisory Board of CAJA MADRID

Vice-Chairman of the Instituto de Estudios Económicos (IEE).

**External independent director**

**María José García Beato**, born 27 May 1965.

Law Degree, Universidad de Cordoba. State attorney.

*Currently:*

Non-director vice-secretary of the Board of Directors of Banco Urquijo, S.A.

General Secretary and member of the Management Committee of Banco Sabadell, S.A.

Secretary of the Board of Directors of Sabadell United Bank (Miami).

Trustee of the Fundación Española de Banca para Estudios Financieros (FEBEF).

Secretary of the Trustees of the Fundación de Estudios de Economía Aplicada (FEDEA).

Member of the the Advisory Board of the publisher Wolters Kluwer España, S.A.

Trustee of the Fundación Wolters Kluwer.

Member of the Advisory Board of Fundación Cajasur.

Director, Banco Gallego S.A.

*Formerly:*

State Attorney at the High Court of Justice in Madrid.

Head of the Legal Services Department of the Data Protection Agency.

Spanish representative on the Advisory Board of the European Committee on Data Protection.

Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for the CERES (Spanish certification of electronic transactions) project.

State Attorney in the Sub-division of the State Legal Services Division.

State Attorney in the Communications Secretariat at the Development Ministry.

Cabinet Chief at the Ministry of Justice.

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 Nacional (National Court) Legal Department.

Head of Legal Services, Banco Sabadell.



Secretary of the Board of Directors of Retevisión, S.A.  
Secretary of the Board of Directors of Banco Urquijo, S.A.

**Non-director Secretary of the Board of Directors**

**Rafael García de Diego Barber**, born 27 July 1951.

He was appointed Secretary of the Board of Directors and legal advisor at the Board meeting held on 4 May 1995.

Law degree, Universidad Complutense, Master's Degree in Tax Counselling for Businesses, Instituto de Empresa.

*Currently:*

Secretary General and of the Board of Directors of Red Eléctrica de España, S.A., Member of the Madrid Bar Association, 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.

*Formerly:*

Lawyer, Loss Department, Zurich, S.A., Lawyer and Secretary of the Boards of Directors of companies in the Inmobiliario Pradisa Group, Lawyer and tax advisor of Ageco, Sociedad de Gestión Financiera and a tax manager 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, Head of the Legal Department and Director responsible for Legal Affairs at Red Eléctrica de España, S.A.

**Non-director Vice-Secretary of the Board of Directors**

**Fernando Frías Montejo**, born 11 March 1965.

He was appointed Vice-Secretary of the Board of Directors at the meeting held on 21 April 2005.

Degree in Law and Certificate in Business Studies, Universidad Pontificia de Comillas (ICADE-E-I).

*Currently:*

Member of the Madrid Bar Association, and Head of the Corporate Governance Legal Department of Red Eléctrica de España, S.A.

*Formerly:*

Lawyer in 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.

• **Attendance at Board and Committee Meetings.**

Set out below are the data on the Company Directors' attendance and failures to attend the meetings of the Board of Directors and of the Audit and Corporate Responsibility and Governance Committees in 2013.

○ Board of Directors:

Of the thirteen (13) Board meetings held in 2013, there were 19 proxy attendances, bringing the number of attendances to 124, representing an attendance rate of 86.71%.

<b>Attendance at meetings of the Board of Directors</b>		
<b>Director</b>	<b>Present</b>	<b>Represented</b>
José Folgado Blanco	13	0
Alfredo Parra García – Moliner <sup>5</sup>	9	4
Francisco Ruiz Jiménez	11	2
Fernando Fernández Méndez de Andés	13	0
María Angeles Amador Millán	13	0
Rui Manuel Janes Cartaxo	5	8
Miguel Boyer Salvador	10	3
Paloma Sendín de Cáceres	13	0
Carmen Gómez de Barreda Tous de Monsalve	13	0
Juan Iranzo Martín	13	0
María José García Beato	11	2

○ Audit Committee.

<sup>5</sup> At its meeting held on 28 January 2014, the Board of Directors of Red Eléctrica Corporación, S.A. accepted the resignation tendered by Alfredo Parra García-Moliner, from his position as Proprietary Director of Red Eléctrica Corporación, S.A., in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

Of the twelve (12) Audit Committee meetings held in 2013, no Directors failed to attend.

- o Corporate Responsibility and Governance Committee.

Of the twelve (12) Corporate Responsibility and Governance Committee meetings held in 2013, no Directors failed to attend.

• **Chairman of the Board and Chief Executive.**

At Red Eléctrica the Chairman of the Board of Directors is also the Chairman of the Company, and currently holds the position of Chief Executive thereof. He is responsible for ensuring that the resolutions of the Board of Directors are implemented, which he represents on a permanent basis.

Notwithstanding the above, in the Regulations of the Board of Directors, the Board of Directors has reserved, on a non-delegable basis, the responsibilities and powers that it considers to be strategic, which have been broadened in 2013, as described in this Chapter. The non-delegable responsibilities cannot be exercised by the Chief Executive or the Board Committees.

The Chief Executive 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 the prior authorisation thereof.

The independent directors, who represent 63.6% of the Board of Directors, together with the Board Committees (which have been assigned specific competences), contribute to the balance of power on the Board.

Nevertheless, in keeping with international recommendations on Corporate Governance, given that a single person at Red Eléctrica holds the offices of Chairman of the Board and Chief Executive, in 2013 we have taken further counterbalancing measures, by modifying the Regulations of the Board and the Corporate Bylaws.

In this regard, the amendments to the Regulations of the Board of Directors on 13 March 2013, were:

- The possibility of creating the post of lead independent director and a procedure for appointing, removing and regulating their powers and responsibilities (a role that was appointed in May 2013).
- The introduction of specific measures for the personal separation of the posts of Chief Executive and Chairman of the Board of Directors.
- Express reservation to the Board of Directors of certain competences and powers which, for reasons of urgency, had previously been delegated to the Chairman of the Board of Directors.
- Provision requiring that the number of independent directors must represent at least half of the total number of directors. When the chairman of the Board is also the chief executive of the Company, the independent directors should constitute a majority of the total number of directors.

The General Shareholders' Meeting held on 18 April 2013, amended the Corporate Bylaws by introducing counterbalancing measures similar to those introduced in the Regulations of the Board of Directors, in cases in which the Chairman is also the chief executive of Company (regulating the role of lead independent director) and other measures that allow the separation of the two offices.

In this regard, in view of the new corporate legal regime approved in 2013, it is possible for the Board Chairman at Red Eléctrica not to be the chief executive of the Company, or even for one or more chief executives to be appointed other than the Chairman; issues which will continue to be examined by the Corporate Responsibility and Governance Committee and by the Board of Directors.

- **Responsibilities and duties of the directors.**

The internal Corporate Governance rules have established strict regulation of the responsibility and duties of the directors; the amendment to the Regulations of the Board, adopted in 2013, has sought to reflect the systems and terminology employed in a recent amendment to the Corporate Enterprises Law (introduced by Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Corporate Enterprises Law, which, in short, and deriving from the power in the seventh provision of Law 3/2009, revised -by regulating, clarifying and harmonizing- the Limited Liability Companies Law, Title X of the Securities Market Law and the provisions of the Commercial Code relating to partnerships limited by shares) which has led to changes that are more formal in nature than content-based.

The director shall act with the duty of care of a prudent businessman, and shall diligently report on the progress of the Company.

The Regulations of the Board of Directors also regulate breaches of the Corporate Governance rules by Directors.

- **Duty of loyalty**

The Directors shall serve in their position as loyal representatives in defence of the corporate interest, which is understood as the interest of the Company, and shall comply with the duties imposed by Law, the Bylaws and the Regulations of the Board of Directors.

- **Use of the name of the Company and status as a director**

Directors may not use the name of the Company or their position as directors thereof for conducting proprietary trading or trading for related parties.

- **Ban on using business opportunities**

Directors may not, whether directly or indirectly, for their own benefit, or for the benefit of related parties, or a third party, make use of a business opportunity of the Company or Group companies, unless it has previously been offered to the Company and the latter has waived the opportunity presented, and provided the opportunity has been

authorized by the Board, subject to a report by the Corporate Responsibility and Governance Committee.

#### • **Conflicts of interest**

The directors must notify the Board of any direct or indirect conflict with the interests of the Company in which they may be involved, via the Chairman or Secretary. The director involved shall abstain from voting on resolutions or decisions relating to the transaction affected by the conflict.

It shall be deemed that no conflict of interest exists in transactions within the ordinary course of business of the company with which the director has an employment or professional relationship, or in which he holds an executive position or a significant shareholding, provided that he did not obtain knowledge thereof from the exercise of his office or function, and without prejudice to the obligation to refrain from attending and participating in the resolutions or decisions relating to the transaction.

Directors must also communicate any direct or indirect interest that they and their related parties may hold in the capital of a company with the same, a similar or a complementary activity to the activity constituting the corporate purpose, and shall also notify the positions or functions they hold therein.

Proprietary 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.

The conflicts of interest set forth in the preceding paragraphs shall be included in the annual report.

#### • **Prohibition on Competition**

Without prejudice to the stipulations of the Regulations of the Board regarding conflicts of interest, the directors may not, whether on a self-employed basis or as an employee, conduct identical, similar or complementary activities to those which constitute the corporate purpose of the Company and/or any of its Group companies, unless authorized by the Company through a resolution of the General Shareholders' Meeting, for which purpose they must make the notification provided in the previous article. At the request of any shareholder, the General Shareholders' Meeting shall decide on the removal of directors who may also be directors of another competing company. This excludes positions held in Group companies.

Before accepting any executive position at another company that may pose a conflict of interests or affect their dedication, directors must consult the Board of Directors.

#### • **Duty of secrecy**

Even after they cease to hold office, Directors must keep secret the confidential information, data, reports or records of which they may have become aware as a result of the performance of their duties, and may not disclose them to third parties or disseminate them if such disclosure or dissemination could entail consequences that are detrimental to the corporate interest. An exception is made for instances in which the laws permit communication or disclosure thereof to third parties or where they are

requested or required to send such information or data to the respective supervisory authorities, in which case, the release of such information must comply with the legislation.

Proprietary directors shall be entitled to inform the shareholder they represent of any issues discussed on the Board and its Committees, provided the disclosure of such information does not adversely affect the corporate interest, and provided that such shareholder ensures the full confidentiality of the information received.

#### • **Non-public information**

Directors may not use non-public information of the Company and/or companies of its Group for private purposes, except with the prior approval of the Board of Directors.

Directors must refrain from performing, or suggest that anyone perform, a transaction involving securities of the Company or its subsidiaries, associates or related parties, on the basis of information obtained from their office, or insider or reserved information, as long as this continues to be non-public information. This is without prejudice to the rules applicable in each case in the Internal Code of Conduct on the Securities Market.

#### • **Indirect transactions**

The director will have breached his loyalty to the Company and/or Group companies if, while having prior knowledge of it, he allows or does not disclose the existence of transactions conducted by his relatives or by companies in which he holds an executive position (or in which he has a significant holding), or by other related parties, which have not been subjected to the conditions and controls provided for in the preceding articles.

#### • **Resignations**

Article 22 of the Regulations of the Board of Directors provides that the Directors shall cease to hold office when the term for which they were appointed expires, or when so resolved by the shareholders at the General Shareholders' Meeting in the exercise of the powers legally granted to them.

Furthermore, a list was also drawn up describing the cases in which the Directors must hand over their office to the Board of Directors and formalise, if the latter deems it appropriate, their resignation.

In 2013, no significant events have occurred in this respect; however, in 2014, before the approval of this report, the following circumstances have arisen:

- At its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-Moliner, from his position as Proprietary Director of Red Eléctrica Corporación, S.A., in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

- In view of the notification by the Chairman of the Board of Directors, Mr. José Blanco Folgado, to the Corporate Responsibility and Governance Committee, in which he stated that he will soon reach the age of 70 (on 3 April 2014) and that he intends to formally hand over his office to the Board of Directors in accordance with the provisions of Article 22.2.a) of the Regulations of the Board, and taking into account the report of the Corporate Responsibility and Governance Committee published at its meeting of 16

January 2014, which found that there were no grounds to request his resignation as director, the Board of Directors at its meeting of 28 January 2014, unanimously agreed to ratify his continuation in the office of Director and Chairman of the Board, as it is apparent that Mr. Folgado continues to meet the full conditions necessary for the exercise of his responsibilities on the Board of Directors of Red Eléctrica Corporación, S.A., as is evidenced by the value that he continues to contribute to the Company as Chairman thereof. The term of office of Mr. Folgado as a director, approved by the General Shareholders' Meeting, shall continue until 19 April 2016.

#### • **Directors' Portal**

The Directors' Portal is a 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 application 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, distinguishing between documents for Board meetings, documents for the two Committees, other documents of special interest prepared by the Board, various sections within the corporate information of the Company, the main legislation affecting the activities of the Company, all the corporate information of interest to the directors in the exercise 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 the exercise of their duties as Directors.

The content of the Directors' Portal has been extended several times; we have included information on Corporate Responsibility, developed the corporate documentation and made technical improvements, with it being a highly-valued tool by the directors.

The Directors' Portal is constantly reviewed to ensure it is always up to date and that all possible improvements are made.

In this sense, worthy of note is the project launched in 2013 and expected to be completed in the first half of 2014: in view of the remarkable progress in information technologies in recent years and based on significant experience in the use of the site, it was deemed appropriate to undertake a structural and functional review of the Directors' Portal, in order to make technical improvements (software upgrade, support for new mobile electronic devices and browsers, etc.) which will result in a more modern and efficient implementation.

#### • **Evaluation of the Board.**

The final report on the findings and recommendations of the external evaluation of the Board, its Committees and the Chairman in 2012, conducted by KPMG, was submitted to the Board of Directors at the meeting held on 27 June 2013. For a number of years,

the evaluation of the Board has been conducted by external consultants specialising in the field, which provides the Board with a more objective and independent view on the issues discussed.

There were a number of major changes to the Company's Board of Directors in 2012. On 31 December 2012, only four of the eleven Directors sitting on the Board had held their posts for more than 12 months. KPMG regards this as having particularly enriched the process since, in its opinion, it has enabled the Company to combine the experience of the longest-serving Directors with the fresher 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. Thus, the Chairman of the Board of Directors was evaluated twice: on the one hand, the directors assessed his year as head of the Company's governing body; and on the other, they assessed his performance as the Company's chief executive. The performance of the executive chairman was rated satisfactory in both cases.

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 strong belief in the importance of his responsibilities as regards the Company's reputation and capital markets' confidence therein. 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.

Some areas for progress detected during this process, and highlighted by the Company, are:

- Assess the need for business-oriented training. The Board of Directors regularly receives useful and high-quality information to keep its knowledge of the technical areas related to the company's business up to date. It is proposed to strengthen the Board's business-case training, in relation to matters of greater technical complexity.
- Maintain closer contact with investors. The Company is fully committed to Good Corporate Governance and to the requirements of its foreign shareholders. In this setting of actions, dialogue and commitment, it could be advisable to broaden the information available to the Board regarding the Company's reputation among investors, and also to seek out opportunities that allow the investors to gain a better understanding of the Board of Directors.
- Reorder the weighting of the different matters on the agenda. As discussed above, the Board experienced a significant change in its composition in 2012 and has required a minimum period of adaptation; following this period, it would appear appropriate to focus particularly on issues related to the strategic focus, the risks or the competitive positioning of the Company.
- Maintain closer contact with managers. The Board, in its role as the governing body of the Company, is entrusted with the responsibility of supervising and controlling the work and activities of the management team of the Company; in this sense, it could be advisable to strengthen the culture of knowledge, guidance and supervision of the work of the managers, as it would allow a deepening of the technical and material knowledge of the Company and would improve the quality of



the oversight role of the Board in relation to the management team. The foregoing is based on the clear distinction between the responsibilities of the managers and the directors.

In 2013, the Annual General Shareholders' Meeting appointed KPMG Auditores as the external auditor of the Company, such that the Board, at the proposal of the Corporate Responsibility and Governance Committee, has decided to appoint a new consultant unrelated to the KPMG group, to perform the annual evaluation of the Board. After considering several offers from top professionals, the task was entrusted to PricewaterhouseCoopers (PWC), which is currently in the final stages.

The new evaluation process for the Board in 2013 has been designed and implemented on the basis of interviews with the directors of the Company, who gave their opinions in relation to a series of questions on the quality and effectiveness of the operation and performance of the Board, as well as of the other bodies of the Company, ranging from the Chairman, to the Committees, the lead independent directors and the secretary of the Board.

Although the process is not yet completed, we provide below a summary of the main preliminary findings:

The preliminary findings of the report prepared by PwC reveal that the efficiency and correct functioning of the governing bodies of the Company are its strongest point in relation to the performance of its activities and the exercise of its functions in 2013.

It also indicated that Red Eléctrica was at a very advanced stage as regards its Corporate Governance, even going beyond the mere compliance with certain mandatory legal obligations and implementing some of the latest recommendations and trends in the field, such as:

- Submission of the Annual Report on director remuneration to a binding vote as a separate item on the Agenda of the General Meeting.
- The evaluation of the governing bodies by an independent expert.
- The creation of the post of lead independent director.
- The degree of gender diversity of the members of the Board of Directors.

From a formal point of view, we have obtained very positive feedback on the functioning of the various governing bodies, coinciding with the majority view of the directors that in 2013 we have witnessed a consolidation of the cohesion between both the Board of Directors and the rest of the management bodies. In this sense, we should note the positive opinion of the directors as regards the connections within the governing bodies and of these with the senior management.

Also highly relevant is the improvement identified by the majority of the directors in relation to the formal aspects of these bodies, particularly with respect to the availability, accuracy and preparation of meetings and the quality of the discussions.

Furthermore, the majority of the directors believe that elements such as the appointment of the lead independent director, the consolidation of the roles of the board committees, the improvement of interactions between the directors, the exercise of non-delegable functions and the supervision of the Chairman by the Board, are making an important contribution to the balance of power of the Chairman as chief executive.

Among the challenges to be tackled in 2014 by the governing bodies of the Company, we could highlight the following:

- Review the skills map of the Board of Directors of the Company in order to strengthen the skills present on the Board, incorporating directors with a stronger technical background and with greater experience in the energy sector. Additionally, given the diverse nature of the businesses in which Red Eléctrica is present and the regulatory changes facing the Company, it could be advisable to incorporate directors with a more international profile.
  - Incorporate the new regulatory requirements regarding processes for the appointment and replacement of directors, and increase the dissemination of the new appointment process, which includes the skills map, external expert support and data from the process itself.
  - Give greater focus to supervision in the areas of strategy and investments, since in recent years the definition of the strategic policy of the Company has been strongly influenced by the ongoing regulatory changes that the Company has faced.
  - In response to growing demand from international investors for greater commitment and involvement on the part of directors of large companies, a goal has been established for the Board to determine and agree on the role that the Board should assume in the Company's relationship with shareholders, investors and "proxy advisors", establishing, where appropriate, protocols or policies for communication by the governing bodies with these stakeholders.
  - Given the regulatory changes proposed by the Committee of Experts in the area of Corporate Governance, the role of the "lead independent director" will take on greater relevance at companies in which the positions of Chairman and chief executive are held by the same person, such that it will become essential to strengthen and consolidate the functions of this position at Red Eléctrica throughout 2014.
- **Remuneration Policy for the Board of Directors.**

The main elements and aspects of the Remuneration Policy for the Board of Directors have been described in Chapter I of this Title, to which readers are referred.

Within the current economic climate, transparency in the remuneration received by members of the Board of Directors of listed companies has become an important question, due, among other reasons, to the repercussions that this information can have in the markets. This concern has led to increasing regulatory activity at both national and international level.

Until the entry into force in 2011 of Article 61 ter of the Securities Market Law, the preparation of an annual report on directors' remuneration policy and its submission to the advisory vote of the Annual General Shareholders' Meeting was a mere recommendation of good governance, without being of an obligatory nature. In 2013, further to Sustainable Economy Law 2/2011, of March 4, 2011, Order ECC/461/2013, of March 20 was issued, which determines the content and structure of the Annual Corporate Governance Report, the Annual Report on Board of Directors' Remuneration and other instruments of information of listed companies, enabling CNMV to establish the detailed content and structure of remuneration reports, which it has carried out through Circular 4/2013, of June 12, approving certain models in accordance with which the various entities should make their reports public.

Without prejudice to the above legislation; since 2007, the Company's Board of Directors has voluntarily submitted the annual Board of Directors' remuneration for the approval (binding vote) of the Annual General Shareholders' Meeting, as a separate item on the agenda.

In this regard, since 2010, Red Eléctrica has voluntarily submitted for the approval (binding vote) of the Annual General Shareholders' Meeting, an Annual Report on Board of Directors' Remuneration; which sets out in detail all the information relating to the remuneration of the Board of Directors, and is independent of the Annual Corporate Governance Report.

In line with standard Company practice, both the Board of Directors' remuneration (the part of variable remuneration corresponding to 2013 and the new remuneration for 2014) and the new **Annual Report on Board of Directors' Remuneration and Board of Directors' Remuneration Policy** -which will be structured using a format produced by the Company itself, for the purposes of meeting the information requirements of its foreign shareholders, and with an official Annex, prepared based on the Model attached as Annex I to CNMV Circular 5/2013, of June 12,- shall be submitted for the approval of the 2014 Annual General Shareholders' Meeting, as separate items on the agenda.

## **CHAPTER V.- COMMITTEES OF THE BOARD OF DIRECTORS**

The Committees have been set up by the Board of Directors, with a highly technical profile, to support it in the performance of its responsibilities, designed to achieve greater efficiency and transparency.

Pursuant to Corporate Bylaws, the Company has two Board committees: the Audit Committee and the Corporate Responsibility and Governance Committee. The functions and responsibilities of the Committees are established in the Corporate Bylaws and in the Regulations of the Board of Directors, which are adapted to current legislation and the recommendations of the UCGG.

In 2013, as already expressed in this report, the Corporate Bylaws and Regulations of the Board of Directors have been adapted to include the latest international practices and recommendations in matters of Corporate Governance. Of particular note here is the adaptation of the statutory and regulatory composition of the Committees of the Board of Directors to the requirements demanded by investors, strengthening their independence through a mandatory majority of independent directors, a circumstance which already existed de facto. Advantage was also taken to carry out adaptations to current legislation and to include certain functions that both Committees were in reality already providing.

Chapter IV of Title IV of this document contains a copy of the Annual Report on the Activities of the Committees of the Board of Directors for 2013.

### **1. Audit Committee**

The Audit Committee is comprised of three members, pursuant to Article 23 of the Corporate Bylaws and Article 13 of the Board of Directors Regulations, which establish

a minimum of three and a maximum of five members, all of whom are external directors and with the majority being independent 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 2013, the Committee was comprised of External Directors, with a majority of Independent Directors. . The composition of the Company's Audit Committee on December 31, 2013, and on the date of approval of this report, is:

<b>Director</b>	<b>Position</b>	<b>Type of Director</b>
Paloma Sendín de Cáceres	Chairwoman	External Independent
Maria Ángeles Amador Millán	Member	External Independent
Fernando Fernández Méndez de Andés	Member	External Proprietary (SEPI)

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

In this regard, Article 13.1 of the Board of Directors Regulations, now includes the provision that the Committee shall be formed by a majority of Independent Directors, all of whom must be designated taking into account their knowledge and experience in accounting, auditing or both.

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

Luis Villafuela Arranz, Corporate Director of Regulation and Global Risk Control, and Juan Lasala Bernad, Corporate Director of Economics & Finance, have also regularly attended Committee meetings to report on various matters falling within the areas of the Committee's responsibility.

In 2013, in relation to the review of the Annual Financial Statements of the Company and of its Group for the fiscal year 2012, the external auditor explained the philosophy and processes of the audit carried out of the Group's companies. The Committee agreed to report favourably on the Financial Statements for fiscal year 2012.

Also, at the Annual General Shareholders' Meeting held on 18 April, 2013, the Board of Directors proposal, following a report by the Audit Committee, to appoint KPMG Auditores S.L as the new auditor of the financial statements of both the parent company and the Consolidated Group, for an initial period of 3 years, was approved. The previous auditing firm PriceWaterhouseCoopers (PwC) has carried out the functions of external auditor to Red Eléctrica Corporación, S.A. and its Consolidated Group for the last seven years. At the end of 2012, pursuant to an internal policy of the Red Eléctrica Group that recommends the external auditor be changed on a regular basis in accordance with the best international Corporate Governance practices, the Audit Committee decided to issue a tender to appraise a possible change to the external auditors of the Company and its Consolidated Group; a process which ended with the report and proposal to name KPMG Auditores S.L as the Group's new external auditor, which was finally approved by the Annual General Shareholders' Meeting.

### ➤ **Functions**

Under Article 23 of the Corporate Bylaws and Article 14 of the Regulations of the Board of Directors, 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.

The modification to the Regulations of the Board of Directors approved in March 2013, encompasses the requirements of Additional Provision 18<sup>a</sup> of the Securities Market Law, adapts it to article 23.1 of the Corporate Bylaws and to the best international practices of Corporate Governance and also includes certain functions being undertaken, de facto, by the Committee.

Of these groups of powers, outlined after the review was carried out, the following are of particular note:

1. In relation to *economic / financial information*, the responsibility to supervise the preparation and presentation process and the integrity of the financial information of the Company and, as the case may be, of the Group, ensuring that it is in line with the legal requirements, the suitable definition of the perimeter of consolidation, correct application of the applicable accounting principles and criteria.

In addition, a need to review and inform the Board in advance of the economic/financial information which the Company is to make public and forward to the supervisory bodies of the market has also been established. In line with standard practice, the Committee must ensure that the monthly, quarterly and half-yearly financial statements are prepared using the same accounting criteria as those used to prepare the annual financial statements and, whenever it deems appropriate, may request a limited review by the External Auditor. The functions of annually supervising the Investment Plan, the annual Budget, and Timetable for the Financial Year Economic Close in order to submit them to the Board, and periodically monitoring the Company's treasury stock operations, have now been added.

2. In relation to *internal control and risk management systems*, supervise the internal audit function to ensure the correct functioning of the reporting and internal control systems; the Audit Committee has also been assigned to ensure the independence and efficiency of the internal audit function, to supervise and control the process for selecting, appointing, reelecting and removing the person in charge of the internal audit service, as well as such service's action plans; to supervise and control the means and resources allocated to the internal audit service and, inter alia, its budget; to receive periodic information on its activities; and to check that Senior Management of the Company and of its Group has regard to the conclusions and recommendations of its reports.

The person in charge of internal audit must submit his annual work plan to the Committee, report directly any incidents arising during its performance and submit an activity report at the end of each year. In addition, they must supervise and control the budget of the internal audit function each year.

In addition, the Committee must periodically supervise the efficacy of the internal control and risk management systems, in order to identify and manage the main risks, and make them suitably known, and in particular, now included in the Regulations, the responsibility to supervise the systems regarding the financial information issuing process; to discuss with the External Auditors the significant weaknesses of the internal control systems detected during the audit; and the periodic supervision of the Company and its Group's Corporate Insurance Programme. A final important function, already included in the Regulations, is to supervise the procedure established by the Board to enable employees to report any potentially significant irregularities, particularly financial or accounting irregularities, they may detect at the Company.

3- To establish the corresponding relations with the *External Auditors* in order to receive information about any issues that may jeopardize their independence, for assessment by the Committee, and any other issues related to the audit process, as well as any other communications envisaged in the audit legislation and standards. In any case, they must annually receive from the External Auditors a written confirmation of their independence with respect to the Company or to entities related to it directly or indirectly, and also issue a report expressing an opinion on the independence of the External Auditors making a pronouncement, in all cases, on the provision of non-audit services; 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 the legislation in force on the provision of services other than audit services, the limits on the concentration of the auditor's business and, in general, the other provisions stipulated to ensure the auditor's independence. In the event of resignation of the external auditor, it must examine the circumstances that may have led to its renounce, and verify that senior management of the Company and of Red Eléctrica de España, S.A.U. is acting on the recommendations of the external auditor. The changes in these functions in the Regulations have been made to adapt them to the wording of Article 23 of the Corporate Bylaws.

4. In relation to compliance with *legal provisions and internal rules*, 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 Monitoring 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 may arise; 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. Finally, and as a recent addition to the Regulations, the Committee must supervise the Criminal Risk Prevention Programme, submit to the Board of Directors any proposals for improvement it considers appropriate, and, prior to its submission to the Board of Directors, supervise the preparation of the annual compliance report by the Programme's control and supervisory body.

5. In relation to the *the Company's shareholders*, the Committee is responsible to be aware of and, where relevant, respond to any initiatives, suggestions or complaints raised by the shareholders within the scope of its functions and for reporting to the Shareholders' Meeting, as applicable, on any issues falling within its powers. Furthermore, the requirement to submit to the Board of Directors the proposed resolutions and reports, within its powers, to be subsequently presented to the Annual General Shareholders' Meeting, has now also been included.

6- In the section on *Other responsibilities* the following duties of the Committee, which have been adapted to functions that it already undertakes in practice, are of particular note:

Produce an Annual Activities Report, which will be included in the Annual Corporate Governance Report; approve an Action Plan and meeting timetable for each financial year, and report to the Board of Directors on any related-party transactions and any transactions creating or acquiring interests in special-purpose vehicles or entities with their registered office in countries or territories that are considered tax havens, and also on any transactions and operations that could be detrimental to the Group's transparency. It is also responsible under the provisions of the Internal Code of Conduct on the Securities Market for monitoring functions relating to the Company's treasury stock operations.

## **2. Corporate Responsibility and Governance Committee**

The Regulations of the Board of Directors provide that the Corporate Responsibility and Governance Committee will be as determined by the Board of Directors and comprise a minimum of three and a maximum of five members, from among the External Directors, and with the majority being Independent Directors.

This provision, which has just been included in the Regulations of the Board of Directors, incorporates the best Corporate Government practices, which recommend the non-participation of executive directors on this Committee and that the majority of members be Independent Directors.

Of note here is the decision adopted in 2012 by the Board of Directors, which took place before the modification of the Regulations of the Board of Directors, to adjust the composition of the Corporate Responsibility and Governance Committee and, for the first time, to have no participation by the Company's Executive Directors.

The Committee Chairman shall be an Independent Director elected from among its members and the Secretary shall be 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 shall hold office for a period not exceeding three years, may be reelected and shall resign when they do so in their capacity as Directors or when the Board of Directors so decides, following a report from by the Corporate Responsibility and Governance Committee. The Chairman shall be replaced every three years and may be reelected after one year has elapsed since his dismissal.

During 2013, the Corporate Responsibility and Governance Committee was composed of three Directors: two external independent directors and one Proprietary Director. In January 2014, one of the directors of the Committee resigned as proprietary director, as explained later in this report.

In 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 good 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. with Mr Iranzo Martín as its Chairman.

The composition of the Committee at December 31, 2013, was as follows:

<b>Director</b>	<b>Position</b>	<b>Type of Director</b>
Juan Iranzo Martín	Chairman	External Independent
Carmen Gómez de Barreda Tous de Monsalve	Member	External Independent
Alfredo Parra García Moliner <sup>6</sup>	Member	External Proprietary (SEPI)

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 the majority vote on the Corporate Responsibility and Governance Committee, and its chairman must be an Independent Director.

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<sup>6</sup> At its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-Moliner, from his position as Proprietary Director of Red Eléctrica Corporación, S.A. in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).



On 25 May 2013, Ms. Gómez de Barreda was named Lead Independent Director by the Board of Directors, at the proposal of this Committee.

➤ **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 –and propose, in the case of independent directors– in advance, on all proposals submitted by the Board of Directors to the Shareholders’ Meeting for the designation or removal of Directors, even in case of co-optation. To propose to the Board of Directors, the appointment of the Lead Independent Director.
- b) To propose the remuneration 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.

The above basic responsibilities are detailed in Article 16 of the Regulations of the Board of Directors.

With the modification to the Regulations of the Board of Directors in March 2013, the functions of this Committee have been adapted to the best international practices of Corporate Governance; certain legal provisions have been introduced, such as the reference to the Annual Board of Directors’ Remuneration Report, regulated in article 61 ter of the Securities Market Law, and also includes specific functions which were being undertaken by the Committee, but which had not been included in the Regulations.

The main functions of the Committee, after the modification of the Regulations, are as follows:

1-1 In relation to *appointments, discharge of functions and removals*:

- a) To submit for the Board of Directors’ approval and implement, where applicable, the policy for appointing and assessing candidates (new function introduced with the changes to the Regulations).
- b) To report –and propose, in the case of independent directors– in advance, on all proposals submitted by the Board of Directors to the Annual General Shareholders’ Meeting for the designation or removal of Directors; and report and propose –in the case of independent directors– the appointments of the directors by co-optation approved by the Board.

- c) To report, prior to their submission to the Board of Directors, on proposals for the appointment or removal of all positions on the Board of Directors and its Committees.

(The three following functions are part of the new Regulations).

- d) To draft an independence statement form, to be submitted to the Board of Directors, which must be signed and delivered annually by the Independent Directors.
- e) To verify each Director's status for the purposes of the pertinent explanations from the Board of Directors at the Annual General Shareholders' Meeting which must appoint or ratify their appointment, and for the recording of the appointment in the Annual Corporate Governance Report.
- f) To propose to the Board of Directors, the appointment of the Lead Independent Director.
- g) To ensure that the candidates for vacancies on the Board meet all of the requirements of the legal provisions and the provisions of these Regulations.
- h) Evaluate the competence, knowledge and experience necessary on the Board and, as a result, to define the functions and aptitudes necessary in the candidates who are to cover each vacancy, within the policy approved for such purpose.
- i) To evaluate the time and dedication necessary for Directors to discharge their duties with due clarity and efficiency, valuing, for such purposes, compatibility with membership on other management bodies of companies.
- j) To report on appointments and removals of Senior Managers of the Company and of Red Eléctrica de España, S.A.U. proposed by the Chairman to the Board of Directors.
- k) To examine or organize, as deemed suitable, the succession of the Chairman and, if appropriate, to make proposals to the Board for such succession to occur in any orderly and well-planned way.
- l) To ensure a sufficient balance of men and women when covering new vacancies.

## 2- In relation to *remuneration*:

- a) To propose to the Board:
  - i) The remuneration policy applicable to the Board of Directors and, where applicable, the Senior Management of the Company and of Red Eléctrica de España, S.A.U.

- ii) The annual remuneration for the Board of Directors, which shall include the part corresponding to the fixed remuneration and the variable remuneration linked to compliance with the predetermined and quantifiable strategies and objectives established by the Board, at the proposal of the Corporate Responsibility and Governance Committee, before the start of each financial year and linked to actions envisaged in the Company's Strategic Plan (new function introduced with the changes to the Regulations).
  - iii) The individual contractual remuneration for executive directors and the other terms of their contracts.
  - iv) The basic terms of the contracts of senior managers of the Company and of Red Eléctrica de España, S.A.U.
- b) To consult the Chairman of the Company, especially where dealing with matters relating to Executive Directors and Senior Managers of the Company and of Red Eléctrica de España, S.A.U.
  - c) To ensure compliance with the approved Remuneration Policy applicable to the Board of Directors, Executive Directors, and, where appropriate, Senior Management and the rest of the management team of the Company and Red Eléctrica de España, S.A.U. and, in particular, to periodically supervise compliance with the predetermined and quantifiable objectives, in line with the Strategic Plan, which must be assessed to determine the final amount of the annual and, where applicable, multi-year variable remuneration applicable to them. (a function carried out since the changes to the Regulations, along with the introduction of the two following functions).
  - d) To submit to the Board the proposed Annual Report on Directors' Remuneration, in accordance with Article 47 of these Regulations.
  - e) To ensure that the Annual Report on Directors' Compensation is in line with the international standards on this issue.

3- In relation to *discharge of Directors' duties*:

- a) To ensure that Directors perform the obligations stipulated in these Regulations, to report to the Board on their performance, to issue the appropriate reports and proposals and, as the case may be, any on the measures to be taken in the event of breach.
- b) To authorise Directors to use corporate assets.

4- In relation to *rules and actions on Corporate Governance*:

- a) To supervise compliance with the rules of Corporate Governance, making proposals for improvement to the Board of Directors, to receive information in this connection and, if appropriate, to issue and submit annually to the Board a report on the measures to be taken.

- b) To submit to the Board of Directors the proposals of the Audit Committee on the modification of the Internal Code of Conduct on the Securities Markets.

(The six following functions were introduced as part of the changed Regulations).

- c) To approve the proposed Annual Corporate Governance Report to be submitted to the Board of Directors.
- d) To submit to the Board of Directors the proposed resolutions and reports within its powers to be submitted to the Annual General Shareholders' Meeting.
- e) To direct the Board's assessment process and, in particular, regarding the Board Chairman and the Company's top executive, in coordination with the Lead Independent Director.
- f) To approve an annual improvement programme on Corporate Governance and periodically assess its compliance.
- g) To periodically review the Company's Corporate Criminal Risk Prevention Program, in coordination with the powers attributed to the Audit Committee.
- h) To submit to the Board of Directors a Knowledge and Information Programme Proposal for directors.

5- In relation to *Corporate Responsibility*:

- a) To propose and promote the Company's Corporate Responsibility policy.
- b) To report on, supervise and analyse the actions and proposals made or resolved on in the area of Corporate Responsibility by the organisational units responsible and, as the case may be, to issue and submit to the Board the corresponding report.
- c) To periodically assess the advances and results obtained by the Company in Corporate Responsibility (new function introduced with the changes to the Regulations).
- d) Approve an Annual Report on Corporate Responsibility Management, which will shall be submitted to the Board of Directors.
- e) Approve an Annual Report on the management of Corporate Ethics, which shall be submitted to the Board of Directors. (new function introduced with the changes to the Regulations).

6- *Other functions*:

- a) To keep the Board of Directors informed of its activities and to draw up an annual report on activities which must be included in the Annual Corporate Governance Report, and approve a guiding Action Plan timetable for each financial year.
- b) To propose and report on any other matter relating to the foregoing which may be requested by the Chairman or by the Board of Directors or which because of its nature is included within its powers.
- c) Any other power conferred on it by the Board.

## **CHAPTER VI.- THE LEAD INDEPENDENT DIRECTOR**

### **1. Introduction**

In accordance with international standards of Corporate Government, it is recommended that listed companies separate the posts of Chief Executive Officer (*CEO*) and Chairman of the Board of Directors.

The basic principal of this requirement is to avoid the risk of concentrating too much power in the hands of one single person, who at the same time performs the roles of both Chairman of the Board of Directors and *CEO* of the listed company, which could prevent or impede both the Board of Directors and Senior Management from adequately carrying out, with the necessary independence, those functions they have been given.

As an alternative to the separation of the posts of *CEO and Chairman*, the main foreign international investors and the major international *proxy advisors*, have accepted as an alternative temporary measure, the creation of a *Lead Independent Director (LID-)* within the Board of Directors to act as an additional counterweight to the concentration of power in the hands of the *CEO-Chairman*.

This measure has also been taken up by the Group of Experts set up by the Spanish Government to improve Corporate Governance, which has led to the Draft Law amending Corporate Enterprises Law, the aim of which is to improve the corporate governance of those companies outlined in this report; they see it as an obligation, that where the Chairman is also the *CEO*, the Board of Directors, with the abstention of the Executive Directors, should name a Lead Independent Director from among the Independent Directors, who will have the special powers to request a meeting of the Board of Directors or to include new items on the agenda of a Board meeting already called, to coordinate and call meetings with Non-Executive Directors, and to lead, where appropriate, the periodic evaluation of the Chairman of the Board of Directors.

The Board meeting held on 13 March 2013, resolved to create the post of Lead Independent Director, as proposed by the Corporate Responsibility and Governance Committee. The Annual General Shareholders' Meeting of 18 April 2013, proceeded to amend the Corporate Bylaws in this regard. The Board Meeting held on 28 May 2013, appointed Carmen Gómez de Barreda Tous de Monsalve as Lead Independent Director, for a period of three years.

## **2. Functions.**

The essential responsibility of the Lead Independent Director, which must be taken into account for carrying out the other functions described in the Regulations of the Board of Directors, of organising the common positions of the independent directors and being the communicator or spokesperson of those common positions with respect to the Chairman of the Board of Directors, the Board itself and the Board's Committees.

Pursuant to the provisions of Article 9 bis of the Regulations of the Board of Directors, and without prejudice to the other functions which they may have expressly assigned in these Regulations, the Lead Independent Director shall have the following powers:

### 1 With respect to the Board of Directors:

- a) To propose, to the Chairman of the Board of Directors, items to be included on the agenda for each meeting.
- b) To chair the Board of Directors meetings when the Chairman is absent or is in a conflict of interest and subsequently evaluate with the Chairman the issues that were dealt with.
- c) Convene ordinary or extraordinary meetings of the Board of Directors for duly justified reasons which must be attached to the meeting announcement, when such a request has not been dealt with by the Board Chairman.
- d) Take part in drawing up the annual timetable of the Board of Directors meetings, in coordination with the Chairman, the Board secretary and the Corporate Responsibility and Governance Committee.
- e) To participate in the Board's self-assessment process and, in particular, regarding the Board Chairman and Company's senior executive, in coordination with the Corporate Responsibility and Governance Committee.
- f) To carry out other responsibilities that the Board of Directors attributes expressly to him, where applicable.

### 2. In respect to the Independent Directors:

To convene and chair, at his own initiative or at the initiative of another independent director, at least once a year, formal or informal meetings of independent directors, define the items to be dealt with, which can include, among others, the basic responsibilities of the Board of Directors and Senior Management, with the possibility of requesting the presence of the management at such meetings.

### 3. In respect to the Shareholders:

To be at the disposal of the shareholders for any queries or direct communication with them.

## **CHAPTER VII.-SENIOR MANAGEMENT**

The persons holding Senior Management positions at the Company at December 31, 2013, excluding the CEO, were as follows:

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

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.U., that the Chairman proposes to the Board of Directors.

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

The remuneration 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.

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

The Annual Reports on Remuneration and Board of Directors Remuneration Policy, approved by the Board of Directors and by the Annual General Shareholders' Meetings in recent years, present information on the total remuneration paid to these executives.

As regards remuneration for fiscal year 2013 for these executives, please see the Annual Reports on Remuneration and Board of Directors Remuneration Policy, which includes information on Senior Executives.

## **CHAPTER VIII.-RISK POLICY AND INTERNAL CONTROL SYSTEMS**

### **1. Scope of the Company's Risk Management System.**

Red Eléctrica Group has operated a Risk Management System since 2002, the Company having developed its first Risk Map in 2003.

The Risk Management System implemented by the Company is integrated and continuous; with this management being consolidated by each business unit, subsidiary and support areas at corporate level.

The purpose of this Risk Management System is to ensure that the risks that may affect the strategies and objectives of Red Eléctrica Group are systematically identified, analysed, assessed, managed and controlled, applying uniform criteria, within the established risk limits, so that the strategies and objectives of the Red Eléctrica Group can be fulfilled.

In accordance with the Conthe Code (*Unified Good Governance Code of Listed Companies*, published on 19 May 2006) and the Regulations of the Board of Directors of Red Eléctrica, it is the Board of Directors itself that should approve the Risk Control and Management Policy. This policy identifies the different kinds of risk, sets the level of risk the Company deems to be acceptable, and the necessary measures to mitigate the impact of these risks.

Within the internal regulatory framework of Red Eléctrica Group, the above-mentioned manifests as:

- Integrated Risk Management Policy<sup>7</sup>.
- General Procedure of Integrated Risk Control and Management<sup>8</sup>.

As part of the internal policy of continuous improvement of processes, in 2012, the audit firm *Ernst & Young* carried out a review contrasting the system of Risk Management at Red Eléctrica Group with the international standard ISO 31000, concluding that:

*“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.”*

## **2. Company Bodies responsible for the preparation and implementation of the Risk Management System.**

As previously stated, the Risk Management System is integrated in nature, in so far as all of the Group's business units participate in it, along with the various governing bodies, within a systematised management process, which conforms to the criteria and guidelines established in the Policy and General Procedure of Integrated Risk Control and Management.

The Policy and Procedure define the various responsibilities of each of the units and governing bodies of Red Eléctrica Group, and also the information flows and activities to be carried out, in accordance with the model that appears in the graph below.

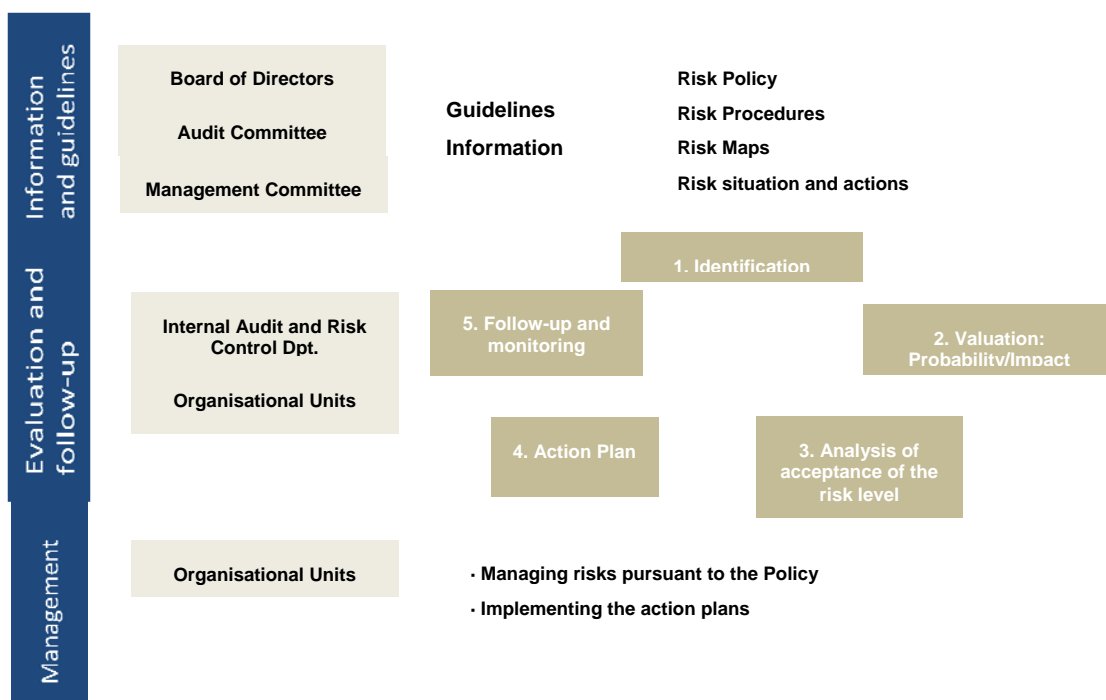
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<sup>7</sup> The existing policy is the 3rd edition, approved by the Board of Directors on 24/07/2008. It is currently in the process of being updated.

<sup>8</sup> The existing procedure is the 4th edition and was approved by the Board of Directors on 17/01/2013.



## Integrated Risk Management Model



As expressly recognised in the Regulations of the Board of Directors, the **Board of Directors** is responsible for approval of the Integrated 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** has been given the powers to periodically supervise 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 Integrated Risk Management Policy.
- Monitoring the Risk Map, and agreeing on the appropriate actions to facilitate the achievement of the global objectives.

The **Global Risk Control And Regulation Department**, which reports to the Office of the Chairman, is, through the **Internal Audit and Risk Control Department**, responsible for managing the process of identification, analysis, evaluation and periodic control of risks. This department provides reports for the Management Committee,

Audit Committee and the Board of Directors. Amongst the information provided, the following is of particular note:

- Material risks map
- Material risks files
- High-level risks monitoring report
- Risk reports by general management and corporate governance departments

The **organisational units** are involved in the Risk Management System within the process of identification, analysis and evaluation, together with the **Internal Audit and Risk Control Department** and in the implementation of action plans.

Along with the responsibilities assigned to the Group's various units and control bodies, the Risk Management System establishes the information flows, the actions guaranteeing the systematic monitoring and control of risks through a series of activities and products, and the specific methodology to measure the level of risk.

### Evaluation and monitoring of risks

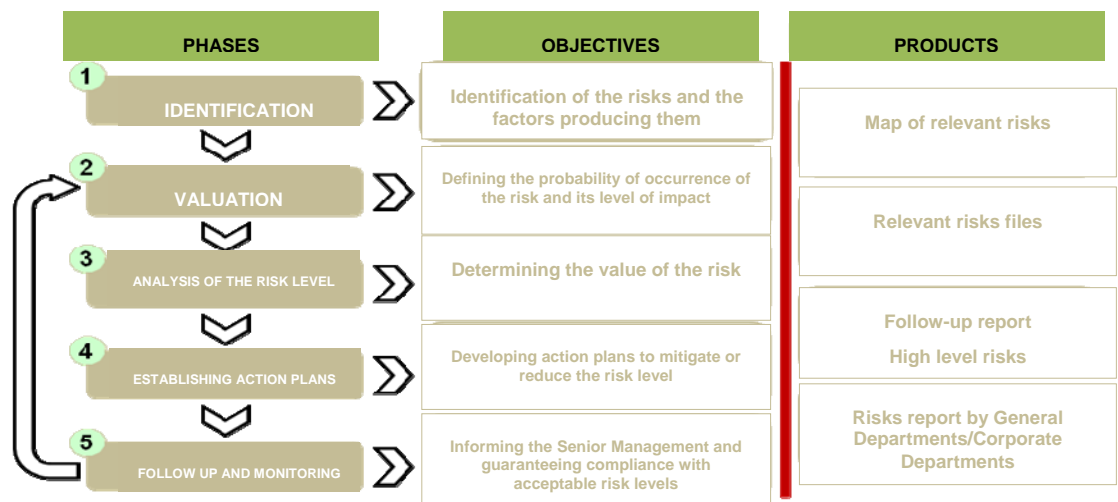


Figure 1

### 3. Main risks that could affect the achievement of the business objectives.

The principal business of the Red Eléctrica de España Group is the transmission of electricity and operation of the electricity system in Spain, which are regulated activities, in so far as they are critical to the security and continuity of electricity supply and are carried out on an exclusive basis.

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

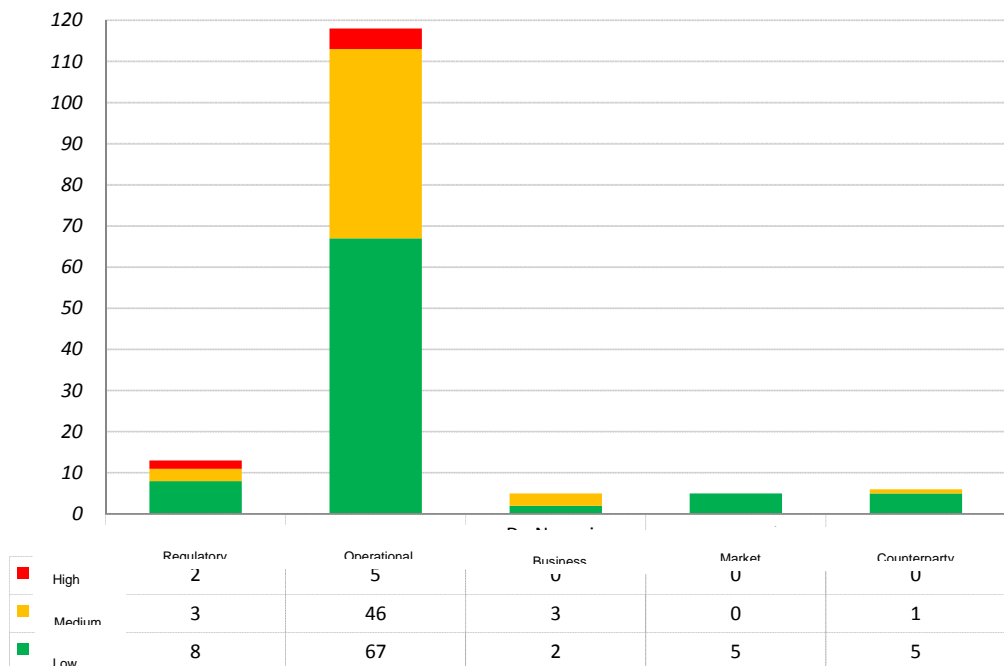
In this context it is important to highlight the following for their importance and relevance:

- **Regulatory risks:** Possible changes to the legal framework regulating the business, which could affect its revenues and/or costs, either directly or through the introduction of new requirements and conditions for the operation of the business.
- **Operational risks:** Risks deriving from the inadequacy or failure of processes, personnel, internal equipment or systems or due to external events. Although this type of risk is common in all kinds of economic activity, the critical nature of the functions carried out by Red Eléctrica Group mean that this type of risk could have a wider social and economic importance, for which reason it is necessary to pay them special attention.

In addition to the above-mentioned specific risks of Red Eléctrica, other types of common risks in the carrying out of economic and business activities include:

- **Market risks**
- **Business risks outside the electricity system**
- **Counterparty risk**

As a consequence of risk analysis undertaken by Red Eléctrica Group in the latest **Risks Map** produced, 147 risks are identified, the distribution of which, in function of the typologies defined above, is shown in the graph below.



Equally, in the graph above, and in accordance with the valuation model developed by Red Eléctrica Group, which is analysed in the following section, the classification of risks in accordance with the three established levels (high, medium and low) can be seen.

#### **4. Level of risk tolerance.**

The Risk Management System of Red Eléctrica Group sets out a methodology to determine the acceptable level of risk and the level of tolerance, as a result all identified risks are classified into three categories:

- High-level risks
- Medium-level risks
- Low-level risks

To establish the level of a risk, two parameters are used: the probability of the risk occurring and the impact it would have on the company if it did materialise.

The probability of occurrence is classified into four levels in accordance with a specific probability distribution for each type of risk:

- Very high.
- High.
- Medium.
- Low.

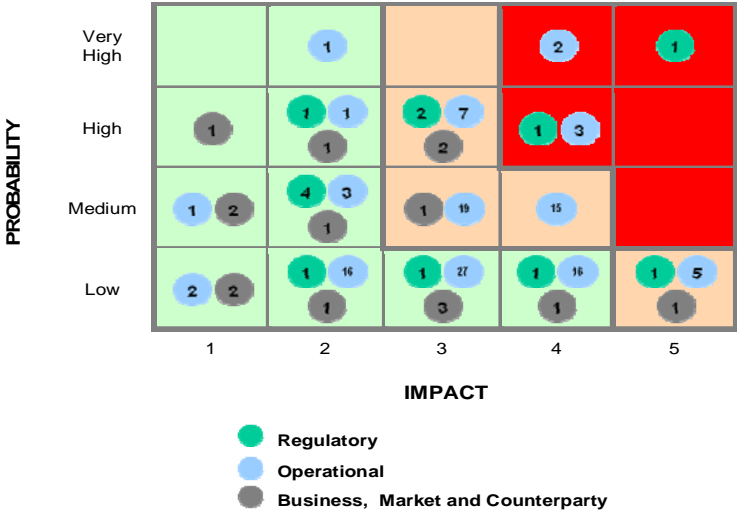
In relation to their impact, risks are rated on the basis of the effect that their materialisation could have on four key elements of the business:

- The supply of electricity. Measured by the Energy Not Supplied (ENS) as a result of the possible event.
- The achievement of basic strategies. Degree of impact on the achievement of basic strategies.
- Reputation. Degree of impact on reputation (geographical scope, duration and reparability).
- The income statement. Impact on the income statement, before Corporate Income Tax.

For each of these four elements, Red Eléctrica Group has produced a table showing 5 levels of effect or impact. In the cases of electricity supply and the income statement, the measurement is quantitative in nature (MWh and Euros) whereas for basic strategies and reputation it is qualitative.

The position on the probability/impact matrix, which depends on the probability of occurrence and the level of impact of each risk, automatically determines the level of risk (red box = high risk, orange box= medium risk and green box = low risk).

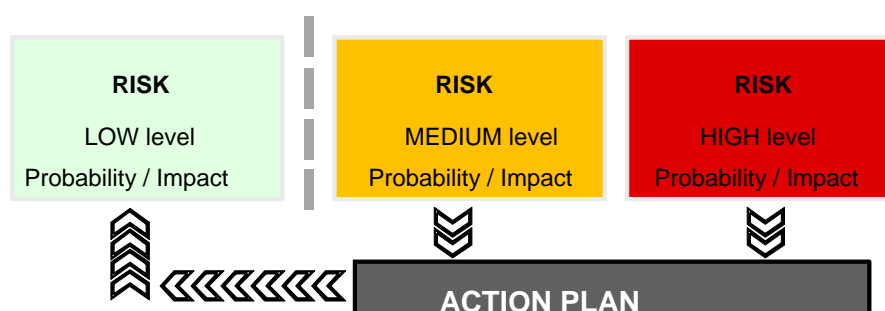
### Risk matrix



The level of risk tolerance, as defined by Red Eléctrica Group, only considers acceptable those risks which are classified as "low" on the matrix above. In accordance with risk policy, all risks above this acceptable level must be subjected to actions in order to achieve this "low" rating, as long as the risk is manageable and the costs of this management are proportionate to the effect of the risk avoided.

## Level of tolerance

### Integrated Risk Management Process



12

#### 5. Materialised risks in 2013.

There were no materialised risks of note in the 2013 fiscal year. (However, please see the information in Section E.5 of Annex I Model of Circular 5/2013, of 12 June, of the National Securities Market Commission, which is included as an Official Annex of this report).

#### 6. Response and Supervision Plans for the Group's principal risks.

*Prevention of risks in the design and functioning of Red Eléctrica Group processes.*

The Red Eléctrica Group's processes have been designed to incorporate elements to mitigate or reduce related risks. These processes have been integrated into structured management systems based on international standards (ISO 9001, ISO 14001 and OHSAS 18001, among others). These are subject to systematic internal and external audits of the adequacy of their design and compliance, and include mechanisms for controlling the objectives that they must meet.

#### *Action and Supervision of Risks Plans*

In the process of identification, analysis, evaluation and control of risks, referred to above, the actions required are established to reduce the degree of risk down to the acceptable level.

On a six-monthly basis for high-level risks and annually for the other levels of risk, the Internal Audit and Risk Management Department, which is integrated into the Global Risk Regulation and Control Department, along with the management units, reviews the performance and impact of the action plans established to reduce risk.

### *Contingency Plans*

Red Eléctrica has a General Procedure: “Crisis management (pre-alert, alert and emergency)”, to regulate crisis situations that could occur in cases of:

- Electrical incident, that could affect the security of supply (peninsular, insular and/or Ceuta and Melilla).
- Non-electrical incident, that could affect the environment, people, the efficiency of the Company, business results or whatever other event that could impact on the Company's reputation.

This procedure:

- Establishes the way in which this crisis should be managed in general.
- Determine the phases of pre-alert, alert and emergency for each type of risk that could affect the operation or transmission of energy through the electricity system or that might impact on people, the environment, efficiency and/or reputation.
- Establish the composition of the committees responsible for managing each type of crisis, and the powers and responsibilities of its members.
- Relate the specific contingency plans that exist at Red Eléctrica for each type of event

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, with the early and voluntary adoption of international best practices.

This ICFR is fully detailed in the “SECTION F. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF FINANCIAL REPORTING (ICFR)”, of *Official Annex of this report, in accordance with Annex I Model of Circular 5/2013, of 12 June, of the National Securities Market Commission.*

## **CHAPTER IX.- RELATED-PARTY TRANSACTIONS**

Pursuant to article 5.5 of the Regulations of the Board of Directors, the Board of Directors has direct responsibilities that cannot be delegated for authorisation of related-party transactions, as defined by the legislation in force at any given time, that are significant or outside the normal business operations of the Company and must obligatorily be reported to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee.

Pursuant to this article, if a related-party transaction involves a Director, the Director shall refrain from exercising or delegating his right to vote and shall leave the meeting

while the Board is deliberating and voting on the transaction, after having informed the Board of the transaction.

The Audit Committee is responsible for reporting in advance to the Board of Directors on related-party transactions requiring authorisation from the Board pursuant to the aforementioned article 5.5 that it considers the Board should be aware of, even where authorisation from the Board is not required.

Pursuant to articles 5.5 and 14.6 of the Regulations of the Board of Directors, in May 2010, the Board of Directors, at the proposal of the Audit Committee, approved a policy on controlling related-party transactions and defined objective parameters for the control of related-party transactions, material or otherwise, recurring annual related-party transactions, and related-party transactions and must obligatorily be reported to the securities markets. The Audit Committee monitors this policy annually and reports to the Board of Directors.

In accordance with the provisions of Article 39 of the Regulations of the Board of Directors, the Board of Directors formally reserves the right to be informed of any material transaction between the Company and a significant shareholder unless, due to its nature and terms, it falls under the jurisdiction of the Shareholders' Meeting.

Pursuant to article 32 of the Regulations of the Board of Directors, Directors must communicate to the Board, via the Chairman or secretary, any direct or indirect conflicts of interest that they may have with the Company's interest. The affected director shall refrain from attending and participating in the resolutions or decisions regarding the transaction to which the conflict of interest refers.

Directors must likewise notify the direct or indirect stakes that they or persons related to them may have in the capital of a company with the same, analogous or supplementary type of activity to the corporate purpose, and must also notify the positions or functions exercised at them.

Pursuant to article 32 of the Regulations of the Board of Directors, Proprietary Directors must disclose to the Board any situation of conflict of interests between the Company and the shareholder who proposed their appointment, when it affects the issues submitted to the Board, and must refrain from participating in the adoption of the related resolutions.

For the purposes established in the Regulations of the Board of Directors, related parties are those determined by the regulations in force at any given time (art. 37 of the Regulations of the Board of Directors).

The conflicts of interest described in this section are stated in the notes to the financial statements.

In addition, Article 2 of the Internal 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 Code) 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, obligated parties and temporarily obligated parties must generally endeavour to avoid situations of direct conflict of interest or conflicts of interest concerning Related Persons and must notify the Oversight Body of any situations of Conflict of Interest that may reasonably arise within fifteen (15) days from such situations coming to their attention, so that the Oversight Body may adopt the appropriate decisions in advance. In the case of Directors, they shall notify the situations described in the preceding paragraph through the Office of the Secretary of the Board of Directors.

Obligated Parties and Temporarily Obligated Parties must keep up to date the information on notified conflicts of interest reporting all changes as and when they occur. Without prejudice to the obligations established in the preceding Subarticle, as regards Conflicts of Interest, Board Members must comply with the conditions and requirements contained in the Corporate Bylaws and in the Regulations of the Board of Directors, and, in general, with all such conditions and requirements as may derive from the corporate/commercial legislation applicable to public limited companies.

The Oversight Body shall keep up to date an itemised register of the conflicts of interest notified by the various Obligated Parties and Temporarily Obligated Parties, and shall adopt adequate security measures for its safekeeping and storage, and, in any event, access to the register shall 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 (following the Company's internal reorganisation, now the Corporate Economic and Financial Department), 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.

Pursuant to article 13 of the Reglamento Interno de Conducta en el Mercado de Valores, 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, and for the internal resolution of any such questions and conflicts raised by Obligated Parties or Temporarily Obligated Parties 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 update it constantly, and adopt the best corporate governance 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. 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.

## **TITLE IV- FISCAL YEAR 2013 AT RED ELÉCTRICA**

### **CHAPTER I.- MAIN CORPORATE RESOLUTIONS**

The principal corporate resolutions adopted by the Company in 2013 as regards corporate governance were as follows:

1. At the meeting of 1 February, 2013, the Board of Directors agreed to reduce the overall sum of Board remuneration in the 2012 fiscal year, for all items, by approximately 5% vs. fiscal year 2011, meaning remuneration for the Board will have remained frozen since fiscal year 2007. With regard to the remuneration of the Board of Directors for fiscal year 2013, looking at the trends shown by investors in relation to the benefits of raising the proportion of the Board's fixed remuneration in place of an excessively high weighting of variable remuneration, the Board of Directors proposed a new scheme of Board remuneration for the year, to be submitted for approval at the Annual General Shareholders' Meeting.
2. The Company's 2012 Annual Corporate Governance Report was approved following a favourable report by the Corporate Responsibility and Governance Committee at the Board meeting held on February 26, 2013, and it was agreed to prepare the Annual Financial Statements and Management Report for the fiscal year 2012.
3. At the meeting of 13 March 2013, the Board of Directors agreed to submit to the Annual General Shareholders' Meeting, the names of María de los Ángeles Amador Millán, for re-election as an Independent Director of RED ELÉCTRICA CORPORACIÓN, S.A. and, María José García Beato, for ratification as an Independent Director, pursuant to the provisions of Article 244 of the Corporate Enterprises Law, by the Board of Directors in their meeting of 29 November, 2012, to substitute Francisco Javier Salas Collantes after his resignation.
4. At the same meeting on 13 March 2013, the Board of Directors approved modifications to the Regulations of the Board of Directors, proposed by the Corporate Responsibility and Governance Committee, to bring them into line with certain legislative changes affecting listed companies, some adaptations to international standards in matters of Corporate Governance, and, finally, to introduce improvements to the organisation and operations of the Board of Directors and its Committees.
5. Also, in the meeting held on 13 March 2013, the Board agreed to create the post of Lead Independent Director.
6. At the same time, the Board of Directors also approved all the proposed resolutions and reports to be submitted to the Annual Shareholders' Meeting for fiscal year 2012, which was called at such meeting.

7. The following resolutions were adopted, as separate and independent items on the agenda, by the Annual Shareholders' Meeting held on April 18, 2013:
- 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, 2012.
  - 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 Red Eléctrica Group, for the year ended December 31, 2012.
  - To approve the distribution of income proposed by the Board of Directors at the meeting held on February 26, 2013 and, as a result, distribute 2012 income.
  - To approve the management by the Board of Directors of Red Eléctrica Corporación, S.A. in 2012.
  - Approval of the Updated Balance Sheet (*balance de actualización*) of Red Eléctrica Corporación, S.A., as of January 1, 2013, pursuant to law 16/2012 of December 27.
  - Approve the re-election of María de los Ángeles Amador Millán as an Independent Director.
  - Ratify and appoint María José García Beato as an Independent Director.
  - Approve the changes to the Corporate Bylaws, for voting in three separate blocks:
    - Adaptation to the latest legislative reforms in relation to Law 54/1997, of 27 November, and related regulations
    - The introduction of measures to counterbalance the case where the Chairman of the Board of Directors is simultaneously the Chief Executive of the Company and other measures which permit the separation of the two posts; and
    - The adaptation of the regulations and current composition of the Board Committees to the principal international practices and recommendations of good Corporate Governance.
  - To approve the appointment of the auditors of the Parent Company and of the Consolidated Group: KPMG Auditores, S.L.
  - To approve the following authorisations for the derivative acquisition of own stock, voting separately on each of them:
    - Authorisation for the derivative acquisition of own stock by the Company or by companies of the Red Eléctrica Group, and for the direct award of own stock to employees and Executive Directors of the Company and of the companies of the Red Eléctrica Group, as remuneration.

- Approval of a Remuneration Plan for members of Management and the Executive Directors of the Company and of the companies of the Red Eléctrica Group.
  - Revocation of previous authorisations.
- In relation to the Board remuneration policy:
    - Approval of the Annual Board of Directors' Remuneration Report of Red Eléctrica Corporación, S.A.
    - Approval of the remuneration of the Board of Directors of Red Eléctrica Corporación, S.A. for 2012.
    - Approval of the remuneration of the Board of Directors of Red Eléctrica Corporación, S.A. for 2013.
  - Delegation of powers to execute and register each and every resolution adopted by the 2012 Annual General Shareholders' Meeting.
  - Information to the Shareholders' Meeting on the 2012 Annual Corporate Governance Report of Red Eléctrica Corporación, S.A.
  - Information for the General Shareholders' Meeting concerning modification of the Regulations of the Board of Directors.
8. In April 2013, the Corporate Government Department was created, reporting to the General Secretary of the Board and the Board of Directors, with the aim of helping implement and spread the best international practices of good Corporate Government at Red Eléctrica and contributing to reinforcing its position in this field.
  9. In the meeting held on 13 March 2013, the Board of Directors agreed to appoint Carmen Gomez de Barreda Tous de Monsalve as an Independent Director, for a period of 3 years.
  10. At its meeting on 28 May 2013, the Board of Directors approved changes to the Code of Ethics to include the best international practices, alter the scope and content of the Code of Ethics, and update the ethics management system to the content of the new version of the Penal Code.
  11. At its meeting held on September 29, 2013, 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.

## **CHAPTER II. - MAIN AWARDS AND RECOGNITION.**

There follows a list of the main awards and recognition received by the Company in fiscal year 2013 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 eighth year running, in the renowned *Dow Jones Sustainability World Index (DJSI)* with a score of 80 points out of 100.
2. Recognition as a Member of the *Sustainability Yearbook 2014*, a publication that annually analyses the sustainability of those companies which make up the Dow Jones Sustainability Index (DJSI).
3. The re-awarding of the 500+ European Seal of Excellence by the *European Foundation for Quality Management (EFQM)*, with an outstanding rating; confirming REE as the highest point scorer of all the 43 companies in Spain who currently have this seal.
4. Remaining in the *FTSE4Good* sustainability index, with an overall score of 4.5 out of a maximum of 5, and a relative score of 100 out of 100 and placing itself among the leading companies in the *utilities sector*. This index includes listed companies throughout the world which meet the requirements pre-established by the stock exchange index.
5. Inclusion of the Company, since 2008, in the *ECPI*, which monitors the performance, in terms of sustainability, of those companies with the biggest market capitalisation . Red Eléctrica remains in the *ECPI EMU (Economic and Monetary Union) Ethical Equity Index*. Red Eléctrica has also been chosen to form part of the new index, the *ECPI Global ESG Best in Class Equity*.
6. Inclusion for the third consecutive year in the *STOXX Global ESG Leaders indices*, which offer a representative sample of leading companies worldwide in the field of sustainability.
7. Featuring, since first being included in 2004, in the *Kempen SNS SRI* sustainability index, which includes those companies that reach or surpass the standards of ethical, social and environmental performance.
8. The Company keeps its place in the *Ethibel Excellence* index. It is also added to the *Ethibel Pioneer Index*; composed of companies which lead their sectors in terms of corporate responsibility.
9. First place, for the fifth year running, in the 2012 report "*Culture, politics and social responsibility practices of the IBEX 35 companies*", published by the Corporate Social Responsibility Observatory. The Company ranks first in Corporate Governance matters.
10. Fourth position in the 2013 report "*The influence of corporate government on the reputation of Spanish listed companies*". The survey carried out by Villafañe & Asociados, a firm which specialises in the evaluation and management of business intangibles, looks at the weaknesses and risks of corporate governance.
11. Fourth place in the Reporta Report for 2013, on the quality of financial and non-financial public information of companies in the *General Index of the Madrid Stock Exchange (IGBM)*. In the same report Red Eléctrica held fourth position in the *ranking*, and the Company was highlighted for its good practice in the corporate governance information section.

## **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 Annual General 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 2013 were as follows:

**1. Initial public offerings and sale of notes and other instruments**

On 14, January, 2013, the Company reported that it had issued Bonds (Notes) on the euromarket through its subsidiary Red Eléctrica Financiaciones, S.A.U. with a maturity of nine (9) years and a value of four hundred (400) million euros.

**2. Interim financial information**

The Company sent information on the results for the second half of 2012 on February 27, 2013.

**3. Information on supplementary dividend**

On February 27, 2013, the Company notified the CNMV that the Board of Directors of Red Eléctrica Corporación, S.A. had resolved at a meeting held on February 26, 2013 to propose to the Annual General Shareholders' Meeting, the payment to holders of shares entitled to a dividend, a gross dividend of 2.3651 euros per share, with a deduction therefrom of the gross amount of 0.6764 euros per share, which was paid as an interim dividend on January 2, 2013, pursuant to the Board resolution dated December 20, 2012.

**4. Strategic plans, forecasts and presentations**

The Company published information on the results for fiscal year 2012 and the Strategic Plan 2013-2017, on February 27, 2013.

**5. Annual Corporate Governance Report**

On February 28, 2013, the Company submitted its Annual Corporate Governance Report for 2012.

**6. Call notices and resolutions of General Shareholders' Meetings**

On 14, March, 2012, the Company published a call notice for the Annual General Shareholders' Meeting and the proposed resolutions.

**7. Modification of the Regulations of the Board of Directors**

At its meeting on 14 March 2013, the Board of Directors approved modifications to the Regulations of the Board of Directors to bring them into line with the latest legislative changes affecting listed companies and the most recent international Corporate Governance practices.

**8. Call notices and resolutions of General Shareholders' Meetings**

On April 20, 2013, the Company communicated to the CNMV the full wording of the resolutions adopted at the Annual General Shareholders' Meeting held on April 19, 2013 at the proposal of the Board of Directors of Red Eléctrica de Corporación, S.A.

**9. Interim financial information**

The Company sent information on the results for the first quarter of 2013 on April 26, 2013.

**10. Initial public offerings and sale of notes and other instruments**

On 16, May, 2013, it was reported that Red Eléctrica Corporación, S.A., through its subsidiary Red Eléctrica Financiaciones, S.A. Single-Shareholder Company had issued Bonds (Notes) on the euromarket with a maturity of six (6) years and a value of three hundred (300) million euros.

**11. Appointment of the Lead Independent Director**

On 28 May, 2013, the Company reported the appointment of a new independent director for Red Eléctrica Corporación, S.A., Carmen Gómez de Barreda Tous de Monsalve. This Independent Director was appointed by the Board at their meeting on 13 March, 2013, and ratified by the Annual General Shareholders' Meeting on 18 April 2013, which proceeded to modify the Corporate Bylaws in this regard.

**12. Information on legislation affecting the remuneration from activities**

The Company released a communiqué on 15 July 2013, regarding the Royal Decree-Law 9/2013, of 9 July, which introduces urgent measures to guarantee the financial stability of the electricity system and which affects the remuneration of the electricity transmission business.

**13. Strategic plans, forecasts and presentations (future legislation regarding remuneration from activities)**

On 18 July 2013, the Company announced that it will present proposals on the draft Royal Decree, which fixes the remuneration from electricity transmission from 2015 onwards.

**14. Interim financial information**

The Company released information on its results for the first half of 2013 on July 31, 2013.

**15. Strategic plans, forecasts and presentations**

On 1 October 2013, the Company published the presentation it gave at the Infrastructures Conference in New York.

**16. Credit ratings**

On October 11, 2013, the Company reported that the credit rating agency Fitch had confirmed its rating of Red Eléctrica de España, S.A. as A-, with a negative outlook.

## **17. Interim financial information**

On 30 October, 2013, the Company announced its results for both the third quarter and the first nine months of 2013.

## **18. Credit ratings**

On 6 November, 2013, the Company reported that the credit rating agency Fitch had raised its rating outlook for Red Eléctrica de España, S.A. from negative to neutral.

## **19. Credit ratings**

On 4 December 2013, the Company announced that the rating agency Standard & Poor's had raised its rating outlook for Red Eléctrica from negative to stable.

## **20. Information on dividends**

On December 18, 2013, the Company informed the CNMV that the Board of Directors of Red Eléctrica Corporación, S.A, at its meeting on 17 December, 2013, had agreed to distribute a gross interim dividend for 2013 of 0.7237 euros per share, from which the appropriate withholding would be made at the time of payment.

## **21. Information on legislation affecting the remuneration from activities**

On 30 December 2013 the Company released a communiqué regarding the Royal Decree-Law 1047/2013, of 27 December, which establishes the new methodology for calculating the remuneration of the electricity transmission business.

The material events notified to the CNMV in 2014, before the approval of this report, were as follows:

### **1. Information on legislation affecting the remuneration from activities**

On 9 January 2014, the Company released a presentation explaining the new remuneration system for electricity transmission.

### **2. Changes to the Board of Directors**

On 28 January 2014, the Company announced that the Board of Directors, at its meeting held on the same day, had accepted the resignation tendered by Alfredo Parra García-Moliner, from his position as a Proprietary Director of Red Eléctrica Corporación, S.A., in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).



## **CHAPTER IV. ANNUAL REPORTS ON ACTIVITIES OF THE COMMITTEES OF THE BOARD OF DIRECTORS**

The 2013 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 2013**

#### **1 Introduction.**

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The Committee's Action Plan for 2014, as provided in Article 16.6 a) of the Regulations of the Board of Directors, provides for the preparation of an annual report on the activities undertaken, which is incorporated into the Annual Corporate Governance Report.

#### **2 Structure, composition and functions.**

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At its meeting on 13 March 2013, the Board of Directors of Red Electrica approved modifications to the Regulations of the Board of Directors to bring them into line with certain recent legislative changes affecting listed companies, to update the Company with regard to leading corporate governance practices, particularly internationally, and to introduce improvements to the organisation and workings of the Board of Directors and its Committees.

As a result, at its meeting on 18 April 2013, the Annual General Shareholders' Meeting approved modifications to the Corporate Bylaws. Among other items, these included modifications to the regulations of the Audit Committee and the Corporate Responsibility and Governance Committee in the Company's Corporate Bylaws, to incorporate international recommendations and best practices relating to Corporate Governance. Of particular note here is the new provision that the majority of members of both committee should be Independent Directors.

##### **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 remuneration, compliance with Director's duties and observance of Corporate Governance principles and rules, and other aspects of Corporate Responsibility policy.

The Committee meets with sufficient frequency for the proper discharge of its functions. In any event, the Committee must meet at least on a quarterly basis, when called by its Chairman or at the request of two of its members, as well as each time the Board of Directors or its Chairman requests the issue of a report or the adoption of proposals.

Article 15.5 of the Regulations of the Board of Directors provides that the call notice for meetings, with the documentation associated with same, must be sent by telematic means that duly guarantee the security and confidentiality of the call notice and the corresponding documentation.

The call notice for meetings, which shall include the Agenda, shall be sent by the Committee Chairman or Secretary to each of its members at least three days prior to the date set for the meeting, unless for reasons of urgency it is necessary to call it within a shorter period.

Article 15.5 of the Regulations of the Board of Directors establishes the possibility that, for reasons of urgency and on an exceptional basis, Committee meetings may be held by conference call, video conference or any other distance communication means that enables it to be held, provided that all of the Committee members agree to it.

Committee meetings may be formed with the attendance of the majority of the Committee members and shall adopt decisions or recommendations by an absolute majority of the votes, which must be recorded in the Minutes at the end of the meeting. For the optimum discharge of its functions, the Committee may propose to the Board of Directors that advice be sought from independent professionals and may access any kind of Company information or documentation it may need for the discharge of its functions.

## 2.2. Composition.

The Regulations of the Board of Directors provide that the Corporate Responsibility and Governance Committee shall be composed of a number of Directors to be determined by the Board of Directors, between at least three and not more than five, from among the external directors, and the majority must be independent directors. The Committee Chairman shall be an Independent Director elected from among its members and the Secretary shall be the Secretary of the Board of Directors.

Committee members shall be appointed and removed by the Board of Directors at the proposal of the Chairman of the Board. Committee members shall hold office for a period not exceeding three years, may be reelected and shall resign when they do so in their capacity as Directors or when the Board of Directors so decides, following a report from by the Corporate Responsibility and Governance Committee. The Chairman shall be replaced every three years and may be reelected after one year has elapsed since his dismissal.

During 2013, the Corporate Responsibility and Governance Committee was composed of three Directors: two external Independent Directors and one Proprietary Director.

The composition of the Committee at 31 December 2013 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 <sup>9</sup>	Member	External Proprietary (SEPI)
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The Committee members are 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 of votes on the Corporate Responsibility and Governance Committee, and its Chairman must be an Independent Director.

Set out below are brief summaries of the professional careers of its members, as of 31 December, 2013:

Juan Iranzo Martín has a degree in Economics and Business Science and a Doctorate in Economics, both from Complutense University, Madrid.

Currently he is Professor of Applied Economics at UNED. Deacon-Chairman of the College of Economists of Madrid, Lecturer at CUNEF, Academic member of the Real Academia de Doctores de España, Director of the SANJOSE Group, Director of FERTIBERIA, Member of Advisory Board of CAPGEMINI, Chairman of the Club de Consejeros de España, Lecturer on the Master's "Advanced Corporate Responsibility Management Programme" at the Instituto de Empresa IE Business School, Member of the Health Advisory Council and the Permanent Council Commission of the Ministry of Health, Social Services and Equality, Member of Advisory Board of Fujitsu, Expert member of Spain's Consejo Económico y Social (CES).

He has previously been Management Control Manager for ENUSA, External Relations Manager and Economist at the Fundación FIES, CECA, Director of Studies at the Instituto de Estudios Económicos (IEE), Director General of Studies at the Instituto de Estudios Económicos (IEE), Lecturer in Economic Structure at various universities, Member of the Special Commission for Transparency and Safety in Financial Markets and Listed Companies (Aldama Commission), Member of the CAJA MADRID Control Commission, Vice-Chairman of the Instituto de Estudios Económicos (IEE).

Carmen Gómez de Barreda Tous de Monsalve is a graduate of n Economics and Business Science from the Universidad Pontificia de Comillas (ICADE) and has a Masters in Business Administration, IESE, Universidad de Navarra.

She is currently Director General of the Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)

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<sup>9</sup> At its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-Moliner, from his position as Proprietary Director of Red Eléctrica Corporación, S.A. in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

She has been Commercial manager of the cogeneration area for the Commercial Division of Enagás.

Head of international, petrochemical and marketing departments for Repsol, Institutional Relations and Communications Manager for BP Oil España, Institutional Relations and Communications Manager for BP Oil España, Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA), Delegate to various working groups dealing with energy regulation and security of supply (ARIAE and CEER), and Lecturer and Presenter on various Masters' degree programmes (University of Barcelona, ICAI, Cesma, Club Español de la Energía).

Alfredo Parra García-Moliner has a Law Degree, Universidad de Leon. Member of the National College of State Lawyers, graduating top in 1997.

He has been a State Attorney in the Courts and Tribunals of Madrid, State Attorney in the Government Attorney's Office, State Legal Service Department, General Litigation Services Division, State Attorney Coordinating Legal Assistance to the Nuclear Safety Council, State Attorney Coordinating Legal Assistance to the Instituto Cervantes, AState Attorney-Head in the Ministry of Foreign Affairs and Aid, Member of the Committee for the Reform of the Foreign Service, 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, Director of Legal Services for Corporación Radio y Televisión Española, S.A. and author of a number of legal articles and publications. Until January 2014, he was General Secretary and Secretary of the Board of Directors of Sociedad Estatal de Participaciones Industriales (SEPI).

### **3 Activities undertaken in 2013**

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The Board of Directors is informed of the issues dealt with in the Committee's meetings through the Board's intranet, and 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 actions taken by the Corporate Responsibility and Governance Committee in 2013, were:

#### **3.1 In relation to appointments, performance and removals:**

- A favourable report to the Board of Directors, for submission to the Annual Shareholders' Meeting, on the proposed re-election of an Independent Director.
- A favourable report to the Board of Directors, for submission to the Annual Shareholders' Meeting, on the proposed appointment of an Independent Director.
- Analysis and approval of the proposed appointment of the Lead Independent Director, for submission to the Board of Directors.
- Analysis of the report on the compatibility for office of a Director of Red Eléctrica Corporación, S.A.

### **3.2 In relation to remuneration:**

- Approval of the proposed Business, Managerial and Management Committee objectives for 2013.
- Evaluation of the Business, Managerial and Management Committee objectives for 2012.
- Analysis of the monitoring of the Business, Managerial and Management Committee objectives for 2013.
- Approval of the proposed remuneration for the management team.
- Analysis of the report on the monitoring of the long-term objectives of the 2009-2013 Plan.
- Analysis of the model of and the proposal for remuneration of the Board of Directors for 2012 and 2013, for submission to the Board.
- Analysis of the proposal for the Annual Share Award Programme for non-executive personnel, reporting favourably to the Board of Directors.
- Approval of the preliminary draft of the proposal, for submission to the Board of Directors, of the remuneration of the Board of Directors for 2014, in accordance with international Corporate Governance recommendations.
- A favourable report to the Board of Directors with regard to the Annual Board of Directors' Remuneration Report, for submission to the Annual Shareholders' Meeting.
- Survey and analysis of accrued director remuneration with regard to Board meeting attendance fees, in certain cases.
- Analysis of the international benchmarking in relation to the remuneration model for the Board of Directors' and the CEO of Red Eléctrica, in collaboration with the consultant, Towers Watson.

### **3.3. In relation to the rules and actions on Corporate Governance:**

- Analysis and approval of the proposed modifications to the Regulations of the Board of Directors, and the adaptation of their content to the latest legislative reforms affecting listed companies and to incorporate international Corporate Governance best practices, for their subsequent submission to the Board of Directors and the Annual General Shareholders' Meeting.
- Analysis and approval, for submission to the Board of Directors, of the proposed creation of the position of Lead Independent Director.
- Analysis of the proposal to modify the Corporate Bylaws, for submission to the Annual General Shareholders' Meeting.
- Approval of the Company's knowledge activities programme for Directors for fiscal year 2013.

- Analysis of the report on the self-assessment of the Board of Directors, of the conclusions and recommendations of the external assessment process for the Board of Directors, its Committees and the Chairman for 2012, prepared by KPMG.
- Analysis and approval of the proposed awarding of the contract to PricewaterhouseCoopers for the assessment process for 2013, or submission to the Board of Directors.
- Analysis of the Code of Ethics, for submission to the Board of Directors.
- 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 General Shareholders' Meeting for fiscal year 2012.
- Analysis of the report on the advance evaluation process of the management procedures of the Annual General Shareholders' Meeting, prepared by Deloitte for this purpose.
- Analysis and implementation of the Corporate Governance Improvement Programme.
- 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:**

- Analysis and submission to the Board of Directors of the 2012 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 2012, for incorporation into the Annual Corporate Governance Report for the year.
- Approval of the Committee's Action Plan for 2014.
- Approval of the Committee's meeting timetable for 2014.

## **4 Director attendance at meetings.**

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At the twelve (12) meetings held, no Directors were absent and no proxies were granted by Directors.

## REPORT ON THE ACTIVITIES OF THE AUDIT COMMITTEE IN 2013

### 1 Introduction

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The Audit Committee Action Plan for 2014 envisages the preparation of a report on the Committee's activities in 2013, to be included in the Annual Corporate Governance Report of the Company, which constitutes the purpose of this document.

### 2 Structure, composition and functions

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At its meeting on 13 March 2013, the Board of Directors of Red Electrica approved modifications to the Regulations of the Board of Directors to bring them into line with certain recent legislative changes affecting listed companies, to update the Company with regard to leading corporate governance practices, particularly internationally, and to introduce improvements to the organisation and workings of the Board of Directors and its Committees.

As a consequence, the functions of the Audit Committee have been adapted to the requirements of the eighteenth additional provision of the Securities Market Law, which was modified by Law 12/2010, of 30 June, which transposes 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, which aims to strengthen the powers of the Audit Committee to verify the independence of the External Auditor and essentially affects the composition, structure and functions of the Audit Committee.

#### 2.1 Structure and composition

Throughout 2013, the Audit Committee has comprised three members, pursuant to Article 23 of the Corporate Bylaws and Article 13 of the Board of Directors Regulations, which establish a minimum of three and a maximum of five members, all of whom are external directors and with the majority being independent directors, and appointed for a three-year term, all of whom shall be appointed on the basis of their knowledge and expertise in accounting and/or auditing.

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 2013, the Committee was comprised of External Directors, with a majority of Independent Directors.

The composition of the Company's Audit Committee throughout 2013, and on the date of approval of this report, is:

<b>Director</b>	<b>Position</b>	<b>Type of Director</b>
Paloma Sendín de Cáceres	Chairwoman	External Independent
Maria Ángeles Amador Millán	Member	External Independent
Fernando Fernández Méndez de Andés	Member	External Proprietary (SEPI)

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

In this regard, Article 13 of the Board of Directors Regulations now includes the provision that the Committee shall be formed by a majority of Independent Directors, all of whom shall be appointed on the basis of their knowledge and expertise in accounting and/or auditing

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.

She is currently an Advisory Committee Member of Madrid's Escuela Técnica Superior de Ingenieros de Minas and an Advisory Committee Member of the Fundación para Estudios sobre la Energía.

She has held, amongst other positions, Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin; Director General of Administration and International Relations for the Organisation of Ibero-American States for Education, Science and Culture (OEI); 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; Director General of Mines; Chairman of the National Mining Safety Commission; Director General of the Institute for Restructuring of the Mining Industry and Alternative Development, reporting to the Ministry of Industry and Energy; Director General of Promotion for ICEX.

Director of the following companies: Sociedad Estatal de Participaciones Industriales (SEPI) (1997-2000); Hulleras del Norte (HUNOSA); Banco Exterior de España; Compañía Logística de Hidrocarburos (CLH); FOCOEX; Tabacos de Filipinas; SIRECOX; Centro para el Desarrollo Tecnológico Industrial (CDTI); Fábrica Nacional de Moneda y Timbre (FNMT); Tabatrade; and Banco Exterior de España, in the United Kingdom.



Maria Ángeles Amador Millán holds a Law Degree from the Universidad Complutense de Madrid. She is a practicing lawyer, belonging to the Bar Association since 1973.

She has been the Technical General Secretary of the Ministry of Public Works and Urban Development, Undersecretary of Health and Consumer Affairs, the Minister for Health and Consumer Affairs and a Member of Parliament.

She is a Member of the Advisory Board of Accenture.

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

He is currently, among other roles, an Independent Director of Bankia, S.A and Banco Financiero y de Ahorro, S.A.U.

He held, amongst other positions, that of Principal Economist at the International Monetary Fund. Chief Economist and Director of Research Services at Banco Santander Central Hispano (BCH). Rector of the Universidad Europea de Madrid and the Universidad Antonio de Nebrija.

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

Luis Villafuela Arranz, Corporate Director of Regulation and Global Risk Control, and Juan Lasala Bernad Martínez, Corporate Director of Economics & Finance, have also regularly attended Committee meetings to report on various matters falling within the areas of the Committee's responsibility, along with other members of the management team selected by the Committee.

In 2013, in relation to the review of the Annual Financial Statements of the Company and of its Group for the fiscal year 2012, the external auditor explained the philosophy and processes of the audit carried out of the Group's companies. The Committee agreed to report favourably on the Financial Statements for fiscal year 2012.

### **3 Activities undertaken in 2013**

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On December 17, 2012, the Audit Committee approved its 2013 Annual Action Plan under the responsibilities assigned to it under the Corporate Bylaws and the Regulations of the Board of Directors.

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 twelve (12) times in 2013, and reported the same number of times to the Board on its activities.

In 2013, the Audit Committee performed the following main tasks:

### **3.1 As regards economic and financial information:**

- Review of the 2012 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 2012 year-end.
- Monthly review of the accounts of the Company.
- Analysis of the proposed appropriation of income and distribution of dividends by Red Eléctrica Corporación, S.A. for 2012, and issue of a favourable report.
- Review of financial information for market supervisory bodies.
- Supervision of the sections of the 2012 Annual Corporate Governance Report, within the scope of the Committee's jurisdiction.
- Analysis of the proposed asset revaluations.
- Monitoring of quarterly treasury stock reports, monthly, as of October.
- Monitoring of quarterly related-party transaction reports.
- Analysis of the report on Red Eléctrica Group inter-company transactions to December 31, 2013.
- Analysis and approval of the 2013 year-end timetable of the Red Eléctrica Group.
- Analysis and issue of favourable reports on the proposed continuation of the European Commercial Paper (ECP) Programme.
- Analysis of the report from the external auditor on the consolidated financial statements for the first half of 2013.
- Analysis of Reports on 2013 bond issues.
- Analysis of the proposed distribution of a 2013 interim dividend and referral of a favourable report to the Board.
- Analysis of certain proposals for authorisation to cover financing needs with issue of favourable reports.
- Analysis of the proposal to increase the powers of the Board of Directors, of 30 June 2011, to cover future financing needs (9 May 2013)
- Analysis of the report on the Group's Financial Structure.
- Analysis of the 2014 Budget and issue of a favourable report.
- Analysis of the 2014-2018 Investment Plan.

### **3.2 As regards internal control and risk management systems:**

- Analysis of a report from the external auditor PriceWaterhouseCoopers into the quality of the Group's internal control systems in relation to its 2012 financial statements.
- Analysis of the Internal Audit Report into the System of Internal Control of Financial Reporting (ICFR) for fixed assets in 2012.
- Analysis of the Company's Risk Map Report, of December 31, 2012, and quarterly monitoring for risks considered as high-level.
- Analysis and approval of the report into the implementation of the Criminal Risk Prevention Programme.

### **3.3 In relation to the internal audit function:**

- Analysis of the Internal Audit reports produced in 2012, and their results.
- Analysis of the report into the resources assigned to the Internal Audit service.
- Analysis of the report on the status of and principal changes to the internal regulatory framework.
- Analysis of the report into the System for Internal Control of Financial Reporting (ICFR) for fiscal year 2012.
- Analysis of the report on work accident classification criteria at Red Eléctrica.
- Analysis of the periodic report on the prevention of workplace risks in 2013.
- Analysis of the 2014 Annual Internal Audit Plan, approved in December 2013.
- Analysis of the periodic reports into compliance with Internal Audit report recommendations.

### **3.4 As regards the external auditor:**

- Analysis of reports from the external auditor into the 2012 financial statements and the preliminary external auditor report for 2013.
- Analysis of reports into the independence of the external auditor issued by PriceWaterhouseCoopers pursuant to Law 12/2010 of 30 June.
- Approval of the proposed appointment of KPMG as the new External Auditor for Red Eléctrica Corporación and Group companies and submission to the Board of Directors.
- Analysis of the report into the External Audit Plan for fiscal year 2013, prepared by KPMG.

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

- Analysis of the report on monitoring of internal regulations at December 31, 2012.
- Analysis of the report on the status and monitoring of the Company's Rules and Procedures.
- Analysis of the performance of the management of internal legislation.

- Annual assessment of compliance with the Internal Code of Conduct on the Securities Market.
- Analysis of the report on Royal Decree Law 9/2013, of 12 July, and on the draft Royal Decree regarding the calculation of the remuneration from the electricity transmission business.

### **3.6 As regards the Company's shareholders:**

- Analysis of the resolutions proposed by the Board of Directors to the Annual General Shareholders' Meeting in those areas falling within their powers, and of the resolution to call an Annual General Shareholders' Meeting.
- Monitoring of any possible initiatives, suggestions and complaints made by the shareholders during the year.
- Attendance by the Chair of the Audit Committee at the Company's Annual General Shareholders' Meeting and their availability for shareholders.

### **3.7 Other activities:**

- Approval of the 2012 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 Programme 2013-2014.
- Approval of the 2014 meeting timetable.
- Approval of the Committee's Action Plan for 2014.

## **4 Director attendance at meetings**

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At the twelve (12) meetings held, no Directors were absent and no proxies were granted by Directors.

## **5. Review of the 2013 financial statements**

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At the meeting approving the report on the activities of the Audit Committee in 2013, and in relation to the 2013 fiscal year, the Audit Committee has proceeded to undertake the following:

- A review of the 2013 Financial Statements of the Company and its Consolidated Group and of the External Auditor's Report.
- The analysis of the proposed appropriation of income and distribution of dividends by Red Eléctrica Corporación, S.A.

As usual, KPMG, 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 V- THE CORPORATE GOVERNANCE OUTLOOK IN RED ELÉCTRICA**

As was the case in 2012, this year's Annual Corporate Governance Report includes a title dedicated to the outlook at Red Eléctrica in matters of Corporate Governance, as it may interest current shareholders, 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.

The statements in this Title do not in themselves represent either formal commitments or obligations for the Company that may be required by others. Rather these are potential steps and actions that may be taken in 2014 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.

In 2013, the Board of Directors has employed the following basic analytical tools with regard to the Company's Corporate Governance practices: The annual assessment of the Board of Directors (supported by an external advisor for a number of years); a Corporate Governance improvement plan, driven by the the Corporate Responsibility and Governance Committee with advice from specialist consultants and a visits programme for institutional investors and *proxy advisors* and the external audit of the management procedures of the Annual General Shareholders' Meeting, which helps to identify certain aspects in need of improvement.

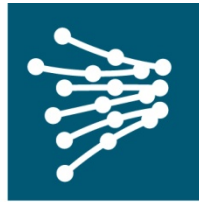
This year, as mentioned at the start of this report, we have gone a step further in improving our dialogue with and commitment to shareholders, with Red Eléctrica becoming a member of the world's leading Corporate Governance organisation, International Corporate Governance Network (ICGN); the first Spanish listed company to do so. This initiative will serve as a new mechanism to discover at first hand the most important international trends in Corporate Governance and any changes and advances in them, and enable rapid analysis and implementation of them.

As also mentioned earlier, in 2013, the Company updated and improved its corporate website, with the aim of adapting it to the latest and best international practices and standards. As part of this project, it undertook an analysis of the Corporate Governance sections of its website, which were very disperse and difficult to access, or, in some cases, did not exist. As a result of this, a complete restructuring and updating of its contents has taken place, with the objective of improving the quality of the information available, standardising it, and making it easier to access and understand. The new "internationalised" corporate website, which is constantly being revised and updated, aims to serve as a link with the Company's shareholders: improving communication and social transparency, and facilitating dialogue with and commitment to them.

The most relevant of these issues, and the ones that will be analysed or debated in the near future in the Board of Directors and its Committees, include:

- Review of and progress in the commitments that the Company has made to its shareholders, particularly foreign institutional investors, in order to consolidate a permanent relationship that will align the interests of the Company with those of its shareholders over the medium and long term.
- Definition and approval of a formal Corporate Governance Policy by the Board of Directors.

- A deeper analysis of the alternatives in the adoption of new measures to counterbalance the powers and responsibilities of the CEO and Chairman of the Board of Directors:
- Consolidating the practice of an external audit of the management procedures of the Annual General Shareholders' Meeting, with the possibility of expanding its scope to include other aspects of Corporate Governance, so as to increase the rights, guarantees and legal security of shareholders.
- Analysis, updating and constant improvement, under international standards, of the information on Corporate Governance on the Company's website.
- Strengthening of the functions of internal control and management of risks in certain areas of the Company's activities and an improvement in the quality of publicly available information in this regard.
- Establishment and start up of a new Regulatory Compliance Plan at the Company and the creation of an independent compliance unit.
- Review and constant improvement of the structure and remunerative policy of the Board of Directors, and of the information on Board remuneration included in the Annual Report on Directors' Remuneration, in accordance with the best international practices of Corporate Governance.
- Refinement and updating of the procedures for selecting and assessing candidates for the Board of Directors.
- Moving the internal analysis process towards Integrated Reporting.



**RED ELÉCTRICA**  
CORPORACIÓN

**OFFICIAL ANNEX**

**MODEL OF ANNEX I TO CNMV CIRCULAR 5/2013, OF 12 JUNE, OF THE SPANISH NATIONAL SECURITIES MARKET COMMISSION (CNMV)**