



**RED ELÉCTRICA**  
CORPORACIÓN

**Annual Corporate Governance Report 2014**

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

## 2014<sup>1</sup> FINANCIAL YEAR

### TITLE I – LEGAL FRAMEWORK APPLICABLE TO RED ELÉCTRICA

#### CHAPTER I.- EXTERNAL FRAMEWORK

In accordance with the requirements of applicable legislation (initially under Article 116 of the Securities Market Act (the “LMV”), introduced by Act 26/2003, known as the Transparency Act, and the Regulations of the Board of Directors (Article 46)), the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter, Red Eléctrica or the Company) has been complying, in its capacity as a listed company, with the obligation to prepare and approve an Annual Corporate Governance Report (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 Act, introduced by the fifth final provision of Act 2/2011, of 4 March, on Sustainable Economy (LES)) and to incorporate the ACGR into the Management Report, in a separate section (Article 538 of the Capital Companies Act (LSC), approved by Royal Legislative Decree 1/2010, of 2 July, as amended by Act 25/2011, of 1 August).

Act 31/2014, of 3 December, amending the Capital Companies Act, to improve Corporate Governance, has included new Article 540 into the Capital Companies Act, establishing the minimum content of the Annual Corporate Government Report; this was previously established in Article 61.bis) of the Securities Market Act, which was expressly repealed as a result of the latest reform. As a novelty, its content will include information on any measures adopted to ensure that the Board of Directors includes a number of female members that is able to guarantee a balance between men and women, as well as any measures agreed upon by the Appointments Committee. Furthermore, a reference is made to fiscal risks in risk control systems.

New Article 540 of the Capital Companies Act provides that the content and structure of the Corporate Governance Report will be determined by the Ministry of Economy and Competitiveness, or by the Spanish Securities Market Commission, if expressly authorised.

Act 31/2014 of 3 December came into force on 24 December 2014, which is why it has not been the object of implementing regulations until now. Consequently, during the 2014 financial year the ACGR model approved in Ministerial Order ECC/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June, remains applicable, given that both rules were still in force at the date this Report was approved. Thus, these rules are the basis of the Official Annex attached to this ACGR, which has been completed according to this standard form.

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<sup>1</sup> Unless another date is expressly indicated in this Report, its content will be presumed effective at 31 December 2014.

The legal framework affecting various Corporate Governance aspects of Spanish joint stock companies has undergone relevant changes over the last year, particularly as a result of the entry into force of Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance. This Act has entailed a review of the Company's basic corporate rules, in order to adapt to the new law, to take place in 2015.

The main novelties in corporate governance matters introduced by Act 31/2014, of 3 December, for joint stock companies, are described below:

1. Regarding the competences of the General Meeting and its involvement in management matters:

- For joint stock companies it is now possible for the General Meeting to get involved in management matters, instructing the management body or presenting for authorisation the latter's adoption of decisions or resolutions in certain matters.
- The General Meeting is entrusted with a new exclusive competence, consisting of decision-making in relation to the acquisition, disposal or contribution of essential assets.
- In listed companies the General Meeting will also be reserved any matters related to the transfer to dependent entities of essential activities, until then carried out by the company, even if they are still totally controlled by the latter ("subsidiarization").
- An asset/activity will be presumed essential if the transaction exceeds 25% of the asset value included in the latest approved balance sheet.

2. Regarding the call and operation of the General Meeting:

- The percentage capital stock required to exercise minority rights in listed companies is reduced to 3%.
- In listed companies there is now a right to request that Iberclear provide shareholder identification details, obtained from shareholder associations representing at least 1% of the capital stock, and shareholders representing more than 3%.
- In listed companies, there is greater prior information made available to the shareholders before a Meeting; limits on the right of attendance and the right to vote against, held by financial brokers holding shares on account of various parties, are regulated.
- In general, the rule is to issue a separate vote by matter; the necessary majority to approve resolutions is clarified; joint stock companies are now subject to a shareholder's duty of abstention in a conflict of interest; and some aspects of the right of information are changed.

3. Regarding the challenge of corporate resolutions:

- A balance, between protecting minority shareholders and trying to avoid abuse when challenging resolutions, is pursued.
- The current system used to bring a challenge is unified and systematized, to enable challengeable resolutions to be identified, the reasons for the challenge, standing to bring a challenge and the timeframe in which to bring this action.
- The former distinction between null and void and voidable resolutions, disappears.
- All shareholders must represent a minimum percentage in order to hold standing to challenge resolutions, except for those contrary to the public order.

- Some particularities are established for listed companies.

#### 4. Regarding directors' remuneration:

- Greater transparency and control over directors' remuneration, reinforcing the role of the General Meeting.
- The General Meeting will approve the maximum annual remuneration for all non-executive directors, in their position as such.
- All directors entrusted with executive tasks will sign an agreement with the Company, exhaustively describing their remuneration system for these tasks; said agreement will be approved by a reinforced majority of the Board without the participation of the director in question.
- All listed companies will approve a directors remuneration policy, including remuneration for non-executive directors, in their position as such, and for performance of executive tasks; the policy will be necessarily approved by the General Shareholders Meeting for a three-year term.

#### 5. Regarding directors' duties of conduct (due diligence and loyalty):

- The "business judgement rule" is enshrined, preventing judges from reviewing directors' strategic and business decisions.
- It is distinguished from directors' liability depending on the tasks effectively executed.
- Basic manifestations of the duty of loyalty are reformulated and others added, such as the obligation of directors to at all times act impartially, without accepting instructions or links with third parties.
- The duty of loyalty makes a difference between basic or material obligations-absolute prohibitions- and certain instrumental obligations covering conflict of interest situations which, on the other hand, may be waived.

#### 6. Regarding directors' liability:

- A director is presumed guilty if the act or omission in question is contrary to the regulations or Company By-laws.
- Liability provisions are extended to *de facto* directors, including both unofficial directors or whose office has expired and concealed directors, as well as the individual representative of a legal entity director.
- The requirements to bring a corporate responsibility action are made less stringent, by reducing to 3% the capital stock required in listed companies for the minority to hold standing, and the possibility of bringing direct action, without the need for a prior Meeting, if the duty of loyalty is infringed.
- A statute of limitations is included for corporate and individual liability actions: four years as of the date of exercisable action.

#### 7. Regarding the delegation of powers by the Board and powers unable to be delegated:

- An agreement must be executed between the Company and Board member appointed CEO, or who is entrusted with executive duties, to be approved by a qualified majority of the Board.
- The list of non-delegable powers is extended, of the Board of Directors for all companies.
- For listed companies there are other additional powers that may not be delegated, in order to preserve the general supervision and control task entrusted to the Board of Directors.

8. Regarding the Board of Directors of listed companies (posts and operation):

- The post of Chairman and Secretary of the Board of Directors is regulated, requiring for their appointment a prior opinion from the Appointments and Remuneration Committee.
- Chairman status may be held by an executive director, although in such case his appointment will require the vote of two third of the directors and a lead director must necessarily be named from amongst the independent directors.
- Non-executive directors may only confer a proxy to another non-executive director.
- The Company is obliged to provide its directors, sufficiently in advance, with the necessary information to perform their tasks, due to the link between directors' information and their general duty of care.
- All Boards of Directors must conduct an annual assessment of Board and Committee operation.

9. Regarding the appointment and types of directors in listed companies:

- The co-optation system in listed companies is modified, removing the need for the designated director to be a company shareholder; if a vacancy arises after the Meeting is called, a director may be designated until the next meeting is held.
- The maximum term of office of directors in listed companies is reduced to four years.
- Any proposed appointments of directors will include a justifying report from the Board.
- Proposals for appointment or re-election of independent directors will be entrusted to the Appointments and Remuneration Committee; the Board itself will be responsible for all other directors, subject to a prior opinion from the Committee.
- Director categories are defined (executive and non-executive-proprietary, independent and other external directors).

10. Regarding the Board Committees of listed companies:

- An Appointments and Remuneration Committee is now mandatory, and its absence will constitute a serious infringement under the LMV.
- Certain recommendations of the Unified Code of Good Governance are included as mandatory.
- Both Committees will exclusively consist of non-executive directors and at least two will be independent, including the Chairman.

11. Regarding the Annual Corporate Governance Report and Annual Report on Directors Remuneration:

- The LSC now regulates the Annual Corporate Governance Report previously contained in the Securities Market Act (LMV), with minor changes.
- Likewise, pre-existing rules on the Annual Report on Directors Remuneration are included, subject to some change in order to adjust it to the new directors remuneration system, to particularly include the need for listed companies to approve a directors remuneration policy.

A review of the current recommendations included in the Unified Code of Good Governance (UCGG), conducted by the Expert Committee under by CNMV's management, during 2014, will result in a new Spanish Corporate Governance Code, which will be approved and published shortly.

## **CHAPTER II.- INTERNAL FRAMEWORK**

The internal corporate rules governing RED ELÉCTRICA are continuously amended to incorporate into the Company the best Corporate Governance practice, and to ensure greater informative transparency for its shareholders. At present, the Company is governed in Corporate Governance matters by the corporate rules and procedures listed below, the individual legal system of which goes beyond the requirements of applicable law.

These rules, as of 31 December 2014, consisted of:

- The Corporate By-laws.
- The Regulations of the General Shareholders Meeting.
- The Regulations of the Board of Directors.
- Company Chairman Succession Plan.
- The Internal Code of Conduct on the Securities Market
- The Code of Ethics.
- Corporate Governance Policy
- The Procedure for proxies, voting and information by remote means at the General Shareholders Meeting (relating to the 2014 Annual General Shareholders Meeting).
- The Operating Rules of the Shareholder E-Forum.

### ➤ **The Corporate By-laws**

The Corporate By-laws 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 by the Company's General Shareholders Meeting. In 2014, no change was made to the Corporate By-laws. Following the entry into force of Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, the Corporate By-laws are being reviewed in order to be presented for approval at the next Ordinary General Shareholders Meeting of the Company, thereby fully adapting them to the new Capital Companies Act.

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

The Regulations of the General Shareholders Meeting were initially approved by the General Shareholders Meeting of 17 July 2003, and have been amended on numerous occasions.

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.

As in the case of the Corporate By-laws, during 2014 no change was made to these Regulations. Following the entry into force of Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, the Regulations are being reviewed in order to present a proposed amendment at the next Ordinary General Shareholders Meeting of the Company, thereby fully adjusting them to the new Capital Companies Act.

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

As indicated in Article 22 of the Corporate By-laws, 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 By-laws and Corporate Governance principles.

The latest amendment of these Regulations was approved at the Board of Directors Meeting of 13 March 2013. The most relevant aspect of this amendment was the Company's adjustment to outstanding practice in Corporate Governance matters, particularly internationally, and the introduction of improvements in the organization and operation of the Board of Directors and its Committees.

Further to the foregoing, measures were adopted to outweigh the concentration of power in the hands of the chief executive and Chairman of the Company's Board of Directors, including other measures, such as specific provisions enabling a personal separation from office, and a non-delegable express reservation in favour of the Board of Directors of certain competences and powers which, for reasons of urgency, had been previously entrusted to the Board Chairman. Another novelty was the formalization of certain practice that had been previously conducted in the Company, such as an annual assessment of the Board of Directors, its Committees and Chairman, by an independent expert. As a novelty, the composition of Board Committees was adapted to investor requirements, strengthening their impartiality, by demanding a majority of independent directors, and the principle of transparency was gathered in relation to the remuneration policy applied to the Board and senior management, including new components and remuneration structures recently recommended by investors and proxy advisors.

In the same way as the Corporate By-laws and Regulations of the General Shareholders Meeting, the Regulations of the Board of Directors will be reviewed in 2015 in order to adapt them to Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, and to new practice in good governance matters included in the new Spanish Unified Code of Good Governance, once it is reviewed and published, also gathering other applicable good governance recommendations.

## ➤ **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 into 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. José Folgado 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 Succession Plan was approved in 2011. Given that the Board Regulations have not changed in 2013, it would be appropriate to review the Succession Plan shortly, in order to keep it totally up to date, as foreseen in the Company's Corporate Governance Policy.

#### ➤ **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. Finally, on 24 June 2014, the Board of Directors approved another update of the Code, basically to adjust it to best practice in treasury stock matters, with particular emphasis on the CNMV's recommendations issued in July 2013 regarding volume, pricing and trading time. The Code is expected to be reviewed in order to fully adjust it, as necessary, to the new Capital Companies Act.

#### ➤ **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, analyse and resolve on the various complaints received. The appointed person is the Company's General Secretary and Secretary of the Board of Directors of Red Eléctrica. 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 forced 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 2013 Annual Report on the Code of Ethics was approved on 29 July 2014. 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.

As part of its Plan to encourage awareness of ethical management, approved by the Company's Corporate Responsibility Committee, during 2014 (to continue over 2015) a set of presentations have been made at all the company's work centres, in order to improve knowledge of the ethics management system, reflecting on the values and commitments acquired by the organization and examining the role and tasks of the Ethics Manager. These meetings have been attended by Rafael García de Diego, Ethics Manager and ombudsman for Red Eléctrica's stakeholders.

In turn, the corporate website has published a list of indicators related to application of the Code of Ethics, to provide relevant information that enables a socially responsible investor to understand the necessary ethical components required for its investment decision-making, in addition to traditional economic and financial criteria.

#### ➤ **Corporate Governance Policy.**

The Board of Directors, at its meeting held on 25 November 2014, approved the Company's Corporate Governance Policy. The Policy provides that its foundations are the corporate values governing its relationship with various stakeholders, helping achieve the Company's strategies and sustainably maximizing its value. These values are reflected in the principles governing the Group's corporate governance policy. Briefly, the Policy describes the catalogue of principles evidencing not only the Company's compliance with applicable regulations, but also its alignment with national and international recommendations and trends in corporate governance matters, which the Company has been voluntarily undertaking since it was listed on the stock market in 1999. These principles included are expected to remain in the long term in the organization, given that without prejudice to their continuous update along with future commitments, they constitute the corporate governance culture of Red Eléctrica. The Corporate Governance Policy intends to align the Company's interests with those of its shareholders and other stakeholders, by protecting and encouraging a value shared by all, incorporating economic, social, environmental and good governance criteria, thereby contributing not only to the Company's sustainability, solvency and good reputation amongst its shareholders and other stakeholders, but also reinforcing trust, stability, progress and social and economic development of society.

Title II below provides a detailed description of the principles and practice included in the Company's Corporate Governance Policy. This Policy is available on the corporate website, under Corporate Governance, "*Our Commitment*".

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

At the Board of Directors Meeting held on 2 April 2014, rules were approved for voting and remote proxies and the right of information by electronic means, for the Ordinary General Shareholders Meeting held on 9 May 2014.

As in previous years, the procedure has produced satisfactory results: 289 shareholders, holding 77,150 shares, have voted or delegated a proxy by electronic means, resulting in 7.9% of the 3,659 shareholders, present or represented on the Meeting, participating by remote means.

➤ **The Operating Rules of the Shareholder E-Forum.**

The Operating Rules of the Shareholder E-Forum were approved by the Board of Directors Meeting of 2 April 2014, in the same terms and conditions (subject to minor formal adjustments) approved by the Board of Directors in previous years.

The Shareholder E-Forum deployed by RED ELÉCTRICA CORPORACIÓN, S.A. on its website -www.ree.es- on the occasion of its General Shareholders Meetings, responds to the requirement established in the last paragraph of Article 117.2 of Act 24/1988, of 28 July, on the Securities Market, introduced by Act 12/2010, of 30 June, and Article 539.2 of the revised text of the Capital Companies Act (LSC), approved by Royal Legislative Decree 1/2010, of 2 July, which has not been amended by Act 31/2014, reforming the LSC.

The Shareholder E-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.

**TITLE II - MAIN CORPORATE GOVERNANCE ASPECTS, PRINCIPLES AND PRACTICE AT RED ELÉCTRICA.**

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

• **Corporate Governance principles: Corporate Governance Policy.**

The Board of Directors Meeting held on 25 November 2014 approved Red Eléctrica's Corporate Governance Policy. This Policy gathers the principles behind Red Eléctrica's Corporate Governance Policy, used as a reference in the Company's relations with its stakeholders, indicated below:

- To consolidate, develop and promote symmetrical devices for dialogue and commitment with shareholders, investors and leading stakeholders in order to improve relations, strengthen commitment and reinforce their trust.
- To promote the informed participation of Company shareholders at General Shareholders Meetings.
- To adopt the necessary measures guaranteeing the adequate exercise of shareholder rights at General Meetings.
- To exert the necessary control and supervision in the Company's most critical and relevant areas, with the Board of Directors directly undertaking responsibilities, as non-delegable powers under its Internal Regulations.
- To preserve an adequate balance and proportionality in the powers inherent to the Board of Directors' structure and composition, by adopting the necessary measures to enable action with unity of purpose and impartiality, pursuing the interest of the Company and its shareholders, as well as the Company's sustainability.
- To ensure that appropriate procedures exist to select directors, guaranteeing a reasonable balance and diversity amongst Board members when performing their task.
- To consolidate its commitment with diverse knowledge, experience and gender in Board and Committee composition.
- To establish adequate devices to define the duties and responsibilities of directors, and to disclose and resolve any potential conflicts of interest between directors and the Company.
- To consolidate a remuneration policy for the Board of Directors, based on moderation, effective dedication and alignment with long-term strategies and interests of the Company and its shareholders.
- To consolidate the practice of presenting to the General Shareholders Meeting, for approval, a remuneration policy, annual remuneration and annual remuneration report for the Board of Directors.
- To guarantee quality and efficiency in operation and performance of the Board of Directors, Chairman of the Board and Company's chief executive and Board Committees, through an annual assessment, ensuring that support and assistance is received from independent external advisors.
- To arrange continuous training for directors in various fields and activities of the Company, through an annual training and information plan.
- To guarantee an orderly succession of the Company's chief executive, guaranteeing continuity and sustainability in the Company.
- To establish the necessary devices and instruments to ensure that the Company identifies, analyses and adopts, as necessary, the best practice, principles and recommendations in good corporate governance matters, following the principle of excellence in its actions, adopted by the Company.
- To guarantee transparency and utmost quality in information, in such a way that the Company's public information is presented in a clear, complete, simple, orderly and comprehensible manner for the various stakeholders.
- To review, update and improve, on a permanent basis and further to international standards, the content and structure of the corporate website.

- To encourage awareness of the principles and values behind our Corporate Governance Policy, both internationally in the organization itself, and externally amongst all stakeholders.
- **Basic practice conducted by Red Eléctrica in Corporate Governance matters.**

One of Red Eléctrica's main challenges is to make its best effort to adopt the Corporate Governance practice demanded by its national and international shareholding, proxy advisors and international bodies- such as the OECD- and national bodies- Unified Good Governance Code.

The Corporate Governance Policy recently approved by the Company, in addition to analysing the foregoing principles, gathers the practice followed by the company or which it has undertaken to adopt further to such principles and which, overall, constitute Red Eléctrica's Corporate Governance Policy.

Following the latest recommendations established by the International Integrated Reporting Council (IIRC), below is a summary of the best practice followed by the Company in relation to its Corporate Governance Policy principles, without prejudice to the relevant section (TITLE IV) describing, amongst other issues, some of the commitments contained in this Policy, as part of Red Eléctrica's roadmap on the matter.

- Regarding the Company shareholders:

- Engagement.

Further to the *principle of consolidating, developing and encouraging symmetrical devices for dialogue and commitment with shareholders and investors*, Red Eléctrica tries to fulfil the needs of foreign institutional shareholders, given their large presence in the Company's shareholding, as well as the most relevant proxy advisors and other stakeholders, in order to improve its relations, increase commitment and strengthen their trust, without prejudice to the guarantees and equal treatment enjoyed by other shareholders.

- General Shareholders Meeting.

Further to the *principle of promoting the informed participation of shareholders at General Shareholders Meetings*, the Company publishes and makes available to its shareholders, sufficiently in advance, all documentation related to the various points included in General Meeting agendas.

Furthermore, in relation to the *principle of guaranteeing the adequate exercise of shareholder rights at General Meetings*, the Company implements devices and adopts measures to enable the performance of tasks and competences entrusted at all times, by law and best corporate governance practice, to the General Shareholders Meeting.

- Regarding the Board of Directors and its Committees:

- Basic tasks and operation of the Board.

In order to apply the *principle of exerting the necessary control and supervision in the Company's most critical and relevant areas*, the Board has been entrusted with the following basic tasks, amongst other direct and non-delegable responsibilities:

- To approve the basic action guidelines and general policies and strategies of the Company and its Group, to include the strategic or business plan of the Company and

its Group, its investment and financing policy, corporate governance policy, corporate responsibility policy, remuneration policy and assessment of senior executive performance.

- Likewise, to approve a policy to control and manage the main risks of the Company and its Group, periodically supervising all internal control, prevention and information systems.

- To effectively supervise the management team.

In order to perform its direct responsibilities, and other tasks and responsibilities, the Board of Directors ordinarily convenes once a month and, at least, once a quarter. Furthermore, at the Chairman's request, it may meet as many times this is deemed appropriate for the Company's adequate operation.

Likewise, it will meet whenever this is requested by the lead independent director or three directors.

The Board will draw up an annual schedule of ordinary meetings and has a formal catalogue of the matters to be discussed.

- Balance of powers in the structure and composition of the Board of Directors.

The Board carries out its tasks further to the *principle of action with unity of purpose and impartiality, pursuing the interest of the Company and of its shareholders, as well as sustainability of the Company*. To do this, it preserves an adequate balance and proportionality in the powers entrusted to Board members.

Red Eléctrica is required to have a majority of independent directors on the Board.

The principle of effective majority of independent directors on the Committees, derived from the principle of majority independent directors on the Board, is applied to all Board Committees irrespective of legal or regulatory name and typology. Furthermore, each Committee is chaired by an independent director and all its members are non-executive directors.

The structure of Red Eléctrica's Board of Directors includes a lead independent director, approved by the General Shareholders Meeting and regulated in its corporate rules, who is entrusted with organizing possible common positions adopted by independent directors and who acts as a channel for interlocution or as a spokesman of such common positions before the Board Chairman, the Board itself and its Committees. The tasks entrusted to the lead independent director include the power to call Board of Directors Meetings, for duly justified reasons, if this request has not been fulfilled by the Board Chairman.

The Board of Directors is reserved a broad catalogue of non-delegable powers in its Regulations, and there is a commitment to permanently examine other possible additional measures to outweigh excessive powers and responsibilities on the Board, particularly when the office of Chairman of the Board of Directors and CEO is held by the same person.

- Appointment of directors.

Red Eléctrica applies the *principle of ensuring that appropriate procedures exist to select directors, guaranteeing a reasonable balance and diversity within the Board of Directors in order to adequately perform its tasks*. To do this, when assessing the

candidates participating in the selection process, the procedure will take into account any competences, experience, professionalism, suitability, impartiality, knowledge, qualities, abilities and availability of the members of the Board of Directors at all times, and the Governance and Corporate Responsibility Committee plays a relevant role in the process.

- Directors' responsibilities.

Further to the *principle* obligating the Company to *establish adequate devices to define directors' duties and responsibilities* in general, and due care and loyalty in particular, complete internal regulations have been established in accordance with the provisions of current law at all times.

As explained in Chapter I above, following the entry into force of Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, the duty of care and loyalty has been amended, which is why the Company's corporate rules are being reviewed in order to adjust directors' duties to the new regulations, to particularly include the Board of Directors Regulations.

- Conflicts of interest.

Further to the *principle establishing adequate devices to disclose and resolve potential conflicts of interest between directors and the Company*, the Company has control mechanisms and measures preventing any potentially affected director from participating in matters where he may directly or indirectly hold a personal interest, in any case prioritizing the corporate interest.

- Remuneration policy of the Board of Directors.

The Company applies the *principle of maintaining a remuneration policy for the Board of Directors based on moderation, effective dedication, alignment with the long-term strategies and interests of the Company and its shareholders* and other stakeholders, to act as an incentive whilst not affecting a director's impartiality in terms of amount. Consequently, it makes comparative analyses with other comparable companies and keeps permanent contact with its shareholders and proxy advisors.

Further to the *principle to subject annual remuneration, a report and remuneration policy for the Board of Directors to the General Shareholders Meeting, for approval*, the Company for several years now has been following the practice of presenting these matters, respectively, as separate points of the agenda at Ordinary General Shareholders Meetings.

- Diversity on the Board of Directors.

The Company applies the *principle of promoting diversity in knowledge, experience and gender amongst Board and Committee members*, as an essential factor to enable it to achieve its objectives from a plural and balanced perspective.

- Assessment of the Board of Directors.

For years now, Red Eléctrica is applying the *principle of conducting an annual assessment of operation and performance of the Board of Directors, Chairman of the Board and chief executive of the Company and Board Committees, ensuring that support is received from independent external advisors* (as has been the case in the last three years). The process is carried out under the management of the Governance

and Corporate Responsibility Committee, along with the lead independent director, and a summary of its main conclusions is voluntarily included in this Report.

- Directors' training and information plan.

Further to the principle of arranging continuous training of directors on the Company's various fields and activities, the Company has undertaken to keep an updated Annual Training and Information Plan for Directors, enabling them to expand their knowledge of the Company's various fields and activities, particularly those that are predominantly technical. For years now, informative meetings are held prior to ordinary Board meetings, and arranged visits are also made to Red Eléctrica centres or facilities, in order to obtain direct and actual awareness of the same.

- Chief executive Succession Plan.

Further to the principle of guaranteeing an orderly succession of the Company's chief executive, ensuring business continuity and sustainability in the long term, the Company has undertaken to arrange the orderly succession of its chief executive. To do this, the Company has a Succession Plan for the chief executive, which is periodically updated.

- Secretary of the Board of Directors.

Further to the principle undertaken by Red Eléctrica, to establish the necessary devices and instruments to ensure that the Company identifies, analyses and adopts, if necessary, the best practice, principles and recommendations in good corporate governance matters, the Secretary of the Board of Directors, further to the duties entrusted in the Corporate By-laws and Board Regulations, has provided the Board of Directors and its Committees with the necessary devices and instruments to identify, analyse and, if necessary, propose the adoption of the best practice, principles and recommendations in good corporate governance matters, allowing the Company to follow up on practice performance and to adequately disseminate the same amongst its stakeholders.

- Regarding the principles of informative transparency and dissemination of corporate governance policy:

The starting point is the principle of guaranteeing transparency and utmost quality in information, in such a way that the Company's public information is presented in a clear, complete, simple, orderly and comprehensible manner for the various stakeholders, undertaking a commitment to encourage awareness of Corporate Governance Policy principles and values.

Further to the principle establishing a commitment to *review, update and permanently improve the content and structure of the corporate website*, international standards are taken into account in order to include the most relevant information for its stakeholders, improving accessibility, operation and the quality of information.

As regards annual corporate information, it undertakes to prepare it according to outstanding international standards and, if deemed appropriate, to conduct external verifications by specialised consultants and auditors.

Some of the foregoing practice, gathered in the Corporate Governance Policy, are described below, in matters related to the shareholders, Board of Directors and its Committees, and relations with the external auditor:

- **Relations with shareholders and institutional investors**

Over the last few years, Red Eléctrica has significantly progressed in transparency and good governance matters. Good governance requires that its stakeholders have regular and prompt access to relevant, sufficient and reliable information, both in relation to the rules and governance of the Company, and the results reached.

Consequently Red Eléctrica, in addition to keeping the market regularly informed during 2014 by sending the relevant market memos and describing its activities with institutional investors, has included all relevant information and communications on its corporate website.

The best practice conducted in 2014 in Corporate Governance matters, focusing on shareholder dialogue and commitment, is described below:

- Update and continuous improvement, under international standards, of the information contained on the corporate website in relation to Corporate Governance.
- Participation in forums and international initiatives on Corporate Governance (ICGN, Spanish Issuers, etc.).
- Roadshows with foreign shareholders and proxy advisors on Corporate Governance.
- International external advice in Corporate Governance matters.
- Self-assessment of the Board, with specialized external support.

Since 2013, the Company holds a prominent position as the first Spanish listed company to join the world organization for Corporate Governance, the International Corporate Governance Network (ICGN), which gathers foreign institutional investors, large corporations, regulators, academics, proxy advisors and other specialists in the matter; its participation is gradually consolidated itself with positive results.

The Company's relations with its shareholders and institutional investors are generic, not particularly or specifically held with any of these.

The Company also ordinarily arranges roadshows presented by the Company's Senior Management, on leading financial markets in Spain and abroad, with a larger presence of institutional investors, in order to provide information on its activities and business development, trying to thus approach this specific group of investors.

In light of the high percentage of foreign institutional shareholders- close to 70%-, in January 2014 and 2015, as in previous years, the Company has launched a visiting plan to investors and proxy advisors in order to receive relevant and updated information, and to also directly explain the practice and actions taken in Corporate Governance matters by the Company. The idea is to consolidate adequate devices to regularly exchange information with national and foreign institutional investors and with outstanding proxy advisors, thereby adjusting to the latest international standards in Corporate Governance.

In no case will the Company provide institutional shareholders with information that may place them in a privileged or advantageous situation with respect to the other shareholders; public information is always exchanged.

- **The Board of Directors.**
  - Low number of directors.
  - A participative and proactive board.
  - A percentage of independent directors (64%) 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 was extended in 2013 when amending the Regulations of the Board of Directors and which will be again amended in 2015 to conform to recently approved Articles 249.bis) and 529.ter) of the Capital Companies Act, increasing the number of powers that the Board of Directors may not delegate in any case).
  - The responsibilities that cannot be delegated cannot be carried out by the executive director or the Board Committees.
  - The Board of Directors has taken on board the best practice recommendations in the area of gender diversity. Five of its members, representing 50% of the Company's non-executive directors (45.5% of the total), 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 By-laws. Nevertheless, the By-laws 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, 64% of which consists of independent directors.
    - Effective immediate control exercised by the Board of Directors, at each monthly meeting, over the ordinary activities of the CEO.
    - Effective immediate control exercised by the Board of Directors, at each monthly meeting, over any extraordinary or urgent measures taken by the CEO.
    - The functions and responsibilities attributed to the Board Committees in the Corporate By-laws and in the Regulations of the Board of Directors, 75% of which consist of independent 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, through the Director's Portal, which is currently being reviewed and updated.

• **The lead independent director**

- Appointed by the Board of Directors 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; this task was actively executed in 2014.
- The roles and responsibilities of the lead independent director are set forth in Article 25.bis) of the By-laws and have been implemented 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 corporations outside the Company.
- These consist entirely of non-executive 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 shareholders, in order to strengthen their independence. It introduced the requirement that there be a majority of independent directors on both Committees.
- On 23 December 2014, the Board of Directors increased the members of both Board Committees, from 3 to 4, 3 of whom are independent directors. Following this increase, women represent 50% of the Auditing Committee members and 75% of the Governance and Corporate Responsibility Committee. Furthermore, 2 women are chairing both Board Committees. By increasing the number of Committee members their independence has been reinforced, as well as the presence of women.
- Chaired by independent directors, as envisaged in the Corporate By-laws 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 By-laws and in the Regulations of the Board of Directors, which confer a stable legal framework thereto.
- **Directors remuneration policy (executive and non-executive directors).**

**- Reiterated practice followed by Red Eléctrica: Approval by the Ordinary General Shareholders Meeting as a separate point of the agenda.**

Since 2010, Red Eléctrica voluntarily presents the annual report on directors remuneration and, since 2007, the annual remuneration of the Board of Directors, to the Ordinary General Shareholders Meeting, for approval, as separate and independent points of the General Meeting agenda. Consequently, all proposals and opinions on these matters have never been presented to the shareholders on a consultative basis.

During 2015, this same line of action is expected to continue, presenting the remuneration of the Board of Directors for 2015, directors remuneration policy and the annual report on directors remuneration, to the approval/binding vote of the shareholders, as three separate and independent points of the General Meeting agenda. In this way, Red Eléctrica Corporación S.A. continues to align itself with the best corporate governance practice, endowing the shareholders with independence and self-sufficiency to be able to individually and separately vote on each different resolution entrusted to the General Shareholders Meeting.

Furthermore, the idea is to present to the General Meeting, in a separate and independent manner from the annual report on directors remuneration, a directors remuneration policy with 3-year validity, pursuant to the terms of Article 529.19 LSCC and the best international practice in this field, to particularly include the Draft European Directive on Shareholder Rights and current legislation in the United Kingdom.

**- Remuneration policy principles.**

The Company's directors remuneration policy is based on the following general principles:

- Balance and moderation.
- Alignment with the practice demanded by shareholders and investors.
- Transparency.
- Voluntary presentation of any decision related to directors' remuneration to the General Shareholders Meeting's approval.

As regards remuneration for the CEO, the following principles will be included:

- Alignment of the CEO's remuneration policy with the Company's strategy.
- Maintaining a reasonable balance between the various components of (short-term) fixed remuneration and (annual and long-term) variable remuneration, reflecting an adequate assumption of risks combined with the achievement of defined objectives, linked to the creation of sustainable value.

- Alignment with the remuneration established by comparable companies.

Regarding the remuneration of non-executive directors, the following principles will be included:

- Relationship with effective dedication;
- Linked to responsibility and performance of tasks as directors.
- Absence of variable components in remuneration in order to ensure their complete independence with respect to the remuneration paid to the CEO and management team.
- Acting as an incentive, without the amount conditioning their independence.

The Governance and Corporate Responsibility Committee deems it appropriate to periodically review the remuneration policy of the Board of Directors and CEO, including in this review process a comparison with reference companies, selecting groups of comparable companies, and maintaining permanent contact with its shareholders and proxy advisors, in order to check the adequacy and moderation of the remuneration paid to directors and executive director in market terms.

All of the foregoing principles conform to the Company's corporate governance policy, approved by the Board of Directors at its meeting of 25 November 2014 and published on the corporate website.

Moreover, said remuneration principles comply with what is generally established for capital companies in new Article 217.4 of the Capital Companies Act, on adequacy to each company's size and relevance, economic position, comparability, profitability and sustainability; and not excessively assuming risks or rewarding unfavourable results.

*For more information, please refer to the Annual Report on Directors Remuneration, as soon as it is available and published on the corporate website, as well as the proposed directors remuneration policy and proposed resolutions on the annual remuneration of the Board of Directors in 2015, which is expected to be presented for approval to the Ordinary General Shareholders Meeting of Red Eléctrica held in 2015, as separate points of the agenda.*

• **Independence of the External Auditor:**

In 2012, at its Annual General Meeting held on 19 April 2012, the Company adapted its Corporate By-laws in order, among others, to align them with the aforementioned Act 12/2010, which aims to reinforce the competences of the Auditing 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 Auditing 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 standard form 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 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.

If it is considered necessary to hire an external auditor for these non-auditing services, the Auditing Committee will present a proposal to the Board of Directors, which is competent to approve the same (Article 5.5.a).xii) of the Board of Directors Regulations).

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 by the Company following the date of its appointment.

Further to Red Eléctrica Group's internal policy, which recommends a periodic change of external auditor in line with the best international practice in Corporate Governance, to guarantee its independence and autonomy, the latest change of external auditor took place at the Ordinary General Shareholders meeting of 18 April 2013, at the proposal of the Board of Directors, which appointed the company KPMG Auditores, S.L. as the new external auditor of the Company and its Group, for a minimum statutory term of 3-years, which will continue in the 2015 financial year, 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 a change was advisable.

## **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 2014, 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 Act, 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 2014, 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, demanded by its shareholders.

The entry into force of Act 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 Act 54/1997, of 27 November. An additional provision that remains in effect pursuant to the express stipulation of the repealing provision of Act 24/2013, of 26 December, on the Electricity Sector.

The equity limits stated in the twenty-third additional provision of Act 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 3% 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 in the parent company.
- 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 By-laws, and in Article 6.3 of the Regulations of the Company's General Shareholders Meeting.

Act 1/2012, of 22 June, on the simplification of the reporting and documentation obligations for mergers and spin-offs of capital companies, redrafts certain aspects of the Capital Companies Act (Article 257, which was not been amended in the recent LSC reform), affecting, among others, the possibility of introducing by-law restrictions on voting rights, after these were expressly prohibited for listed companies by Act 12/2010, of 30 June. This does not affect the Company directly, as it sets out a general regime for listed companies, whereas the Company is subject to the special limitations set out in the aforementioned Act 54/1997, of 27 November, and Act 24/2013, of 26 December.

- **Corporate website.**

This year we have included within the chapter devoted to the Shareholders' Equity, a special section referring to a basic and common tool for communicating with shareholders: the 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 analysing 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 2013.

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 2013 ACGR, approved by the Company's Board of Directors in 2014, expressly included amongst the most relevant Corporate Governance projects a "Permanent analysis, update and improvement, under international standards, of the information contained on the Company's website in Corporate Governance matters" (TITLE V). The new Corporate Governance Policy approved by the Board of Directors on 25 November 2014 also gathers the principle of permanently reviewing, updating and improving, under international standards, the content and structure of the corporate website, improving its accessibility, operation and quality of information.

In practice, this principle has been effectively applied throughout the year. As a result, in 2014, sections have been reviewed, contents improved and information completed, as deemed appropriate.

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, further to its Corporate Governance policy; this is why it has kept this priority in Title IV herein (Red Eléctrica's prospects in Corporate Governance matters).

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

The General Shareholders Meeting, duly called and legally convened, 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 By-laws, 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 allocation of profits.
- Appointing and removing Directors, ratifying, as necessary, their appointment by co-optation, and appointing and reappointing the auditors.
- Approving plans or authorizing transactions involving treasury stock.

- Approving the establishment of remuneration systems linked to the share price for Directors.
- 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 By-laws.
- Authorizing the Board of Directors to perform a capital increase pursuant to the provisions of the Capital Companies Act.
- Approving operations whose effect would be equivalent to the modification of the Company's corporate purpose.

As indicated above, following the amendment approved by Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, the Act has increased the number of matters entrusted to the Meeting, which generally cover the acquisition, disposal or contribution to another company of essential assets (Art. 260.f) LSC) and, specifically in relation to listed companies, the transfer to dependent entities of essential activities until then executed by the company itself, operations that are ultimately equivalent to liquidation of the Company, and approval of the directors remuneration policy (Art. 511.bis) LSC).

Furthermore, all capital companies will be governed by the rule contained in Art. 161 LSC, previously reserved to limited liability companies, whereby the General Meeting may participate in management matters (granting instructions to the management body or presenting for its authorisation the adoption of decisions or resolutions on certain management matters).

The rules on the organization and functioning of the General Shareholders Meeting are contained in the Corporate By-laws (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 previous General Shareholders Meetings.
- Information relating to the right of attendance and procedures for granting proxies for General Shareholders Meetings, in accordance with the provisions of the Corporate By-laws and the Regulations of the General 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 the shareholding, with greater detail on significant holdings, treasury stock and shareholder agreements.

Act 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 Ordinary General Shareholders meeting held on 19 April 2012, approved the modification of the Regulations of the General Shareholders Meeting to incorporate the content required under the Act into the appropriate Articles.

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 Capital Companies Act.

Order ECC/461/2013, of 20 March (which is currently in force, as it was not repealed with the approval of the latest amendment of the Capital Companies Act), which determines the content and structure of the annual corporate governance report, the annual report on remuneration and other reporting documents of listed companies, describes the relevant information to be included on the websites of listed companies; however, 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 and 2014.

By voluntarily creating the "Corporate Governance" section in 2013, the quality of shareholder information was improved.

Furthermore, also worthy of note are the following actions conducted by Red Eléctrica 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 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 General Shareholders Meeting is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.
- The annual reports on the activities of the Auditing 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 Auditing 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.
- At the Ordinary General Shareholders Meeting held in 2014, both chairpersons of the Board Committees participated to present a summary of Committee activities during the past year.

- 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.
- For several years now, an independent consultant (Deloitte) has conducted an audit on the management processes of the Ordinary General Shareholders Meeting, to improve the guarantee of shareholder rights at the Meeting. The auditor's reports are published on the website on the same day as the holding of the General Meeting. As a novelty at the Ordinary General Shareholders Meeting held in 2014 the shareholders were given the possibility of requesting a certification confirming their vote, verified by the external auditor of the Meeting (Deloitte).

Regarding the rights of shareholders, these are regulated in Article 15 of the By-laws, 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 General of Meeting. Specifically, the rights are as follows:

- **Right to information**

The Company pays special attention to the right to information, as reflected in Article 15 of the Corporate By-laws 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 management reports for the year, and the proposed allocation of results.

- The audit reports relating to the Company's individual and consolidated financial statements.
- The Annual Corporate Governance Report.
- The Corporate Responsibility Report. (now referred to as a Global Sustainability Report).
- The Annual Report on Remunerations and Remuneration Policy of the Board of Directors.
- The environmental report.
- The procedures regulating the remote voting system at the Ordinary General Shareholders Meeting.
- The Operating Rules of the Shareholder E-Forum.
- Any other report whose inclusion is obligatory or may be determined by the Board of Directors.

Act 31/2014, of 3 December, amending the Capital Companies Act, has introduced novelties in relation to the right of information. The main ones, applicable to listed companies, are described below:

- It is made clear that all proposed resolutions on each and every point of the agenda will be continuously available on the company website following publication of the call. It is also clarified that a report will be drawn up and published on the website on any points of the agenda that are informative only.
- In particular, there is now a duty to include on the website detailed information on the reports and proposed appointment, ratification or re-election of directors since the Meeting was called, and on the Directors Remuneration Policy.
- The term available to shareholders to request information and clarifications is extended until the fifth day prior to the date scheduled for the Meeting (before, the term was until the seventh preceding day).
- It is foreseen that all valid requests for information, clarifications or questions, made in writing, and replies provided in writing by directors, will be included on the company website.
- If the information requested by shareholders was made available on the company website in Q&A form, the directors may limit the reply by referring to the information provided in this format (previously, directors were allowed to not reply to this type of question).

At the Ordinary General Shareholders Meeting held in 2015, the relevant proposals will be made to amend the Corporate By-laws and Regulations of the General Shareholders Meeting, in order to fully adjust to the LSC reform, with respect to those issues not materially gathered in such corporate rules.

- **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 By-laws 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 Capital Companies Act. The condition that the proxy must be a Company shareholder has been withdrawn, following the approval of the adaptation of its content to Act 25/2011, of 1 August, by the General Shareholders Meeting held on 19 April 2012.

There is no by-law 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 Act 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 Capital Companies Act, following the reforms introduced by Act 25/2011, of 1 August. This Act 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 Regulations of the General Shareholders Meeting and the By-laws, 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 (following the reform of the Capital Companies Act, this has been reduced to 3% for listed companies, which is why the Regulations should be adapted at the next Ordinary General Shareholders Meeting of the Company). 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 2 April 2014, approved a set of rules on remote voting and proxies and the exercise of the right to information via electronic means for the Ordinary General Shareholders Meeting held on 9 May 2014. The results were satisfactory, given that 289 shareholders holding 77,150 shares exercised their right to vote or delegate electronically. This meant that 7.9% of the 3,659 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. Furthermore, at the Ordinary General Shareholders Meeting held on 9 May 2014, in order to facilitate the participation and following of the Meeting to persons with hearing difficulties, for the first time the meeting was interpreted into sign language.

In 2011 we launched the Shareholder E-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 Capital Companies Act. The Forum has been made available, since it was created, at all General Shareholders Meetings held by the Company to date.

The Company has continued using social networks (Facebook and Twitter) over 2014 to publicize and provide information about the Ordinary General Shareholders Meeting.

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

### **• Organization and powers.**

As of 31 December 2014, the Board of Directors was composed of 11 directors (1 CEO, 3 proprietary directors and 7 independent directors- including a vacancy for the position of independent director-).

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

Further to the latest recommendations made by the International Integrated Reporting Council (IIRC), below we describe the strategic decision-making processes of the Board of Directors.

The rules on the organization and functioning of the Board are contained in the Corporate By-laws (Articles 19 to 26, inclusive) and in the Regulations of the Board of Directors (Articles 5 to 12, inclusive).

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 By-laws 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 By-laws 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, held by the same person, 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 Group, 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-auditing 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 foreseen in the 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) Authorisation of 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 Auditing 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.

As already indicated above, the Capital Companies Act, following its recent amendment, has extended the number of powers that the Board of Directors may not delegate in any case (Articles 249.bis) and 529.ter) LSC). Consequently, although practically all the new responsibilities have already been included in the current Regulations of the Board of Directors, Article 5 of the Regulations of the Board will be reviewed soon in order to fully adjust it to the new law.

- **Tax responsibilities.**

Of interest is the new content of Article 529.ter) LSC, which includes the following non-delegable powers in tax matters entrusted to the Board of Directors:

- Determination of the risk control and management policy, including tax risks, and the supervision of internal reporting and control systems (Art. 529 ter.1.b).
- Approval of all types of investments or operations which, due to the large amount or special characteristics involved, are strategic or entail a special tax risk, unless the need to be approved by the General Meeting (Art. 529 ter.1.f).
- Approval of creating or acquiring holdings in special-purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any other similar transactions or operations which, due to their complexity, could be detrimental to the transparency of the Company and its Group (Art. 529 ter.1.g).
- Determination of the Company's tax strategy (Art. 529 ter.1.i).

The Auditing Committee, as a new express responsibility, has also been entrusted with supervising the Company's "tax" risk management systems.

Furthermore, the LSC has added as a novelty to be included in the ACGR, the obligation to expressly report on "tax" risk control systems.

Red Eléctrica Group's tax policy is based on the principles of transparency, good governance and responsibility.

The tax policy is part of the general principles and guidelines established for the Economic-Financial Management of the Red Eléctrica Group, These general principles and guidelines for Economic-Financial Management in tax matters include:

- To promote best practice in management matters, through continuous improvement.
- To manage the Company's activity by adequately appraising the tax risks, establishing adequate devices to cover, prevent and reduce the same.
- To draw up tax information for internal management and compliance with external requirements, in order to provide support in decision-making, providing, with the utmost transparency, the necessary information to financial markets and other stakeholders, and comply with legal and tax requirements.

In order to offer more transparent tax information for its various stakeholders, the Red Eléctrica Group has calculated its Total Tax Contribution, in order to highlight the economic and social function derived from the Group's tax payments.

In order to calculate its total tax payments, the Red Eléctrica Group has followed PwC's Total Tax Contribution (TTC), which measures the total impact derived from a company's payment of tax. This appraisal is conducted in terms of the total contribution of taxes paid to various Administrations, directly or indirectly, as a result of Red Eléctrica Group's economic activity.

The Total Tax Contribution of the Red Eléctrica Group is described in the 2014 Corporate Social Responsibility Report.

According to the Regulations of the Board of Directors- Article 5.5.b).iii) and iv)-, the matters directly reserved to the Board of Directors, on a non-delegable basis, include the following:

- Decisions on any type of investment or operation which, due to its large amount or special characteristics, is strategic, unless it needs to be approved by the General Meeting.
- Decisions on creating or acquiring holdings in special-purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any transactions and operations that may be detrimental to the Group's transparency.

In relation to the foregoing decisions and operations, and whenever an opportunity arises of interest for the Group, the Board of Directors will analyse and take into account, amongst others, the main aspects and tax risks involved.

The Auditing Committee's tasks, foreseen in the Regulations of the Board (Art. 14.6.b)), include reporting to the Board on any unique investment operations, upon request and, in any case, when creating or acquiring holdings in special-purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any transactions and operations that may be detrimental to the Group's transparency.

Consequently, should this type of operation arise, the Auditing Committee will analyse and inform the Board about the main aspects and economic-financial risks involved, to include any tax issues and risks.

The Code of Ethics of the Red Eléctrica Group establishes a commitment to not incorporate enterprises in order to evade tax in territories considered tax havens.

The Red Eléctrica Group has an Integrated Risk Management System that covers any relevant fiscal risks for the Company. Nevertheless, in order to fulfil the provisions of Act 31/2014, amending the Capital Companies Act to improve corporate governance, complementary steps are being taken in the System with respect to tax risks.

Red Eléctrica's processes are integrated into systems structured according to international standards of reference (ISO 9001, ISO 14001 and OHSAS18001), and their layout has included controlling measures to mitigate or reduce the main risks related thereto.

In addition to these processes, there is a specific internal control system for financial information (ICSFI), which includes fiscal data and processes, based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology. These processes and systems are systematically subject to internal and external audits.

In 2014, inspection activities on basic Spanish taxes have ended, for the 2008, 2009 and 2010 financial years. As a result, all Certificates have been signed In Conformity, reflecting the adequate statement, in the Inspectorate's opinion, of all the Company's taxes; said Certificates are final, as they cover verification and investigation activities on all components of the Company's tax obligations.

- **Composition**

At 31 December 2014 the Board of Directors had 11 members (including an independent director vacancy).

Pursuant to the Corporate By-laws, 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 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. Act 31/2014, of 3 December, reforming the LSC, has expressly gathered this limit, thereby acquiring the status of an Act (Art. 529.12 LSC).

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 2014, the Board of Directors of Red Eléctrica had the following members:

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

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	General Meeting	---
María Angeles Amador Millán	26/05/2005	18/04/2013	Member	External Independent	General Meeting	Audit (member)
Francisco Ruiz Jiménez	19/04/2012	19/04/2012	Member	External Proprietary (SEPI)	General Meeting	---
Fernando Fernández Méndez de Andés	19/04/2012	19/04/2012	Member	External Proprietary (SEPI)	General Meeting	Audit (member)
Miguel Boyer Salvador	20/05/2010	20/05/2010	Member	External Independent	General Meeting	---
Paloma Sendín de Cáceres	19/04/2012	19/04/2012	Member	External Independent	General Meeting	Auditing (chairwoman)
Carmen Gómez de Barreda Tous de Monsalve	19/04/2012	19/04/2012	Member	External Independent	General Meeting	Corporate Responsibility and Governance (chairwoman)
María José García Beato	29/11/2012	18/04/2013	Member	External Independent	General Meeting	Corporate Responsibility and Governance (member)
Socorro Fernández Larrea	9.5.14	9.05.14	Member	External Independent	General Meeting	Corporate Responsibility and Governance (member)
Antonio Gómez Ciria	9.5.14	9.5.14	Member	External Independent	General Meeting	Auditing (member)
Santiago Lanzuela Marina	29.07.14	29.07.14	Member	External Proprietary (SEPI)	Co-optation	---
(Vacancy) Independent Director <sup>3</sup>	—	—	Member	External Independent	—	—

<sup>3</sup> The Board of Directors, at a meeting held on 13 February 2015 and further to a proposal made by the Governance and Corporate Responsibility Committee, has decided to appoint as independent director of the Company, by co-optation, Mr. José Luis Feito Higuera, to cover the vacancy left as a result of resignation from office as independent director of Mr. Juan Irazo Martín on 13 October 2014, accepted by the Board of Directors at its meeting of 28 October 2014.

• **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 2014<sup>4</sup>:

**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 independent director**

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

Law Degree, Universidad Complutense de Madrid

<sup>4</sup> The professional profile of independent director Mr. José Luis Feito Higuera, appointed by the Board of Directors at its meeting held on 13 February 2015, is available on the corporate website and will be published amongst the documentation necessary for the forthcoming Ordinary General Shareholders Meeting of the Company, once it is called.

*Currently:*

Practising lawyer.

*Formerly:*

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

Deputy Secretary, 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 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:*

General Manager of 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 Andés**, 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.

*Currently:*

International Consultant on macroeconomic, financial and regulatory issues.

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 BFA Tenedora de Acciones, S.A.U.

*Formerly:*

Member of the Expert Committee for Tax Reform, 2013-2014

Member of the Bruegel Evaluation Committee, 2013.

Principal Economist at the International Monetary Fund.

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

Vice-Chancellor of the Universidad Europea de Madrid and the Universidad Antonio de Nebrija.

Director of the European Business Programme.

**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.

President of the National Mining Safety Commission.

Director General of the Institute for Restructuring of the Coal 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 Masters Courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club)

**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.

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

Trustee of the Fundación Wolters Kluwer.

Member of the Advisory Board of Fundación Cajasur.

*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 Ministry of Development.

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.

Deputy Secretary 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.

Director, Banco Gallego S.A.

**External independent director**

**Mr. Antonio Gómez Ciria**, born 25 March 1957.

Degree in Economics and Business Studies, Universidad Complutense de Madrid

Degree in Mathematics, Universidad Complutense de Madrid.

Masters in Business Administration & Management (Executive MBA), IESE.

*Currently:*

Member of the Advisory Board of Experts in Accounting and Financial Information (ECIF), General Council of the Association of Economists.

*Formerly*

General Manager of Administration and IT, Member of the Management Committee of Grupo FCC (2009-2014).

Representative of Grupo FCC at the Forum of Large Companies, Ministry of Finance and Public Administrations (2009-2014).

General Manager of Internal Auditing, Member of the Management Committee of Grupo FCC (2006-2009).

Head of Internal Auditing, Grupo FCC (2005-2006).

Member of the Advisory Council, Institute of Internal Auditors (2011-2013) and Member of the Executive Committee (2006-2009).

General Technical Secretary of InverCaixa, investments management company of Grupo La Caixa (2000-2005).

Chairman of Instituto de Contabilidad y Auditoría de Cuentas, ICAC (1996-2000).

Director, Empresa Nacional de Uranio, S.A. (1996-2000).

Director, Empresa Nacional de Autopistas, S.A. (1998-2000).

Director, Tabacalera, S.A. (1996-1998).

Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid (1989-1996).

Deputy Manager for Studies and Budgetary Planning, Radio Televisión Española (1987-1989).

Head of the Auditing and Accounting Department, Banco de Crédito Agrícola (1984-1987).

Auditor/Inspector, General State Inspectorate (1981-1984).

*Other:*

Member of the CNMV Work Group to prepare a "Management report guide for listed entities" (2012-2013).

Rewarded with a merits distinction, further to Ministerial Order of 3 November 2000, for his dedication and outstanding professional conduct, granted by the First Vice President of the Government for Economic Affairs and Minister of Economy.

## **External independent director**

**Ms. Socorro Fernández Larrea**, born 7 April 1965.

Civil Engineer, Universidad Politécnica de Madrid.

### *Currently:*

CEO of the consultancy firm JustNow, S.L., providing advise in the infrastructure construction sector, both in commercial and financial operations.

Member of the Board of Directors of AMPER, S.A. (proprietary director), on behalf of Emilanteos, S.L.

Member of the Board of Director of SEG, S.A., involved in executing engineering work in civil and construction projects.

Member of the Management Board of Asociación Española de Directivos and President of its Internationalization Committee.

Member of the Board of Directors, ACR (construction company)-

### *Formerly*

General Manager, COPISA Constructora Pirenaica S.A. (2007-2013).

Vice President, ANCI, Asociación de Constructores Independientes (2008-2013).

Member of the Governing Council, Association of Civil Engineers (2004-2012).

General Deputy Manager, COPISA, Constructora Pirenaica S.A. (2006-2007).

Regional Manager, Seop, Obras y Proyectos, S.A. (2005-2006).

National Representative, Ferrovial Conservación, S.A. (2002-2005).

Representative in Castilla-La Mancha, Ferrovial-Agroman, S.A. (1999-2002).

Representative in Castilla-La Mancha, Agroman Empresa Constructora, S.A. (1995-1999).

General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works, Autonomous Community Board of Castilla-La Mancha (1993-1995).

Works manager, Ferrovial, S.A., in Castilla-La Mancha (1992-1993).

### *Other:*

Member of IWF, International Women Forum, and member of the Management Board (chapter on Spain).

Member of the Business Council for Latin America, member of the

Management Board (chapter on the Iberian Peninsula).

**External proprietary director, on behalf of Sociedad Estatal de Participaciones Industriales (SEPI)**

**Santiago Lanzuela Marina**, born 27 September 1948.

Degree in Economics & Trade.  
Civil servant of the State.

*Formerly:*

Adjunct Professor, Faculty of Economics and Business Studies,  
Universidad de Valencia (1971-1973).

Head of the Spanish Mission for Technical Cooperation in Nicaragua  
(1974-1976).

Head of International Technical Cooperation Programmes, Ministry of  
Employment (1976-1981).

Advisor to the President of Instituto de Cooperación Iberoamericana  
(1982).

Head of the National Heritage Inspection Service (1987).

Regional Councillor of Economy and Finance, Government of Aragón  
(1989-1993).

Founder and Chairman of Instituto Aragonés de Fomento (1990).

President of Centro Europeo de Empresas e Innovación de Aragón  
(1992).

Parliamentary Member for Aragón (1991-1999).

President of the Autonomous Community of Aragón (1995-1999).

Senator representing the Autonomous Community of Aragón, Chairman  
of the Economics and Tax Commission on the Senate (1999-2000).

Congressman, President of the Economics and Tax Commission in  
Congress (2000-2004).

Congressman, Member of the Permanent Council, Vice Chairman of the  
Committee for Foreign Affairs and Member of the Development  
Committee (2004-2008).

Member of the Territorial Management Committee. Sponsor of the  
“Deputy Committee to analyse Spain’s energy strategy for the next 25  
years” (2008-2011).

Congressman, President of the Economics and Competition Commission,  
Member of the Committee for Foreign Affairs, Member of the  
Development Committee, and member of the Spanish Delegation in the  
Parliamentary Assembly to Organize Security and Cooperation in  
Europe-OSCE (2011-28.7.2014).

### **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 Auditing and Corporate Responsibility and Governance Committees in 2014.

○ **Board of Directors:**

Of the thirteen (13) Board meetings held in 2014, there were 6 proxy attendances and no absence, bringing the number of personal attendances to 133, representing an attendance rate of 95.68%.

<b>Attendance at Board of Directors meetings</b>		
<b>Director</b>	<b>Present</b>	<b>Represented</b>
José Folgado Blanco	13	0
María Angeles Amador Millán	13	0
Miguel Boyer Salvador	5	0
Rui Manuel Janes Cartaxo	2	3 <sup>5</sup>
Fernando Fernández Méndez de Andés	13	0
Francisco Ruiz Jiménez	10	3 <sup>6</sup>
Paloma Sendín de Cáceres	13	0
Carmen Gómez de Barreda Tous de Monsalve	13	0
Juan Iranzo Martín	10	0
María José García Beato	13	0
José Ángel Partearroyo Martín	8	0
Antonio Gómez Ciria	8	0

<sup>5</sup> Two ordinary meetings and one extraordinary meeting included.

<sup>6</sup> Two ordinary meetings and one extraordinary meeting included.

Socorro Fernández Larrea	8	0
Santiago Lanzuela Marina	4	0

The Board of Directors, at a meeting held on 13 February 2015 and further to a proposal made by the Governance and Corporate Responsibility Committee, has agreed to appoint as independent director of the Company, by co-optation, Mr. José Luis Feito Higuera, to cover the vacancy left by the resignation from independent director office of Mr. Juan Iranzo Martín, dated 13 October 2014, which was accepted by the Board of Directors at its meeting of 28 October 2014.

With respect to the number of attendances, please note that some directors have not held their office during 2014, specifically the following:

- Mr. José Ángel Partearroyo Martín was appointed proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), at the Board of Directors Meeting of 25 February 2014; he resigned at the Board of Directors Meeting of 29 July 2014.

- Mr. Miguel Boyer Salvador and Mr. Rui Manuel Janes Cartaxo have held office as independent directors until the Ordinary General Shareholders Meeting of Red Eléctrica Corporación, S.A., held on 9 May 2014.

- Mr. Antonio Gómez Ciria and Ms. Socorro Fernández Larrea were appointed independent directors of Red Eléctrica Corporación, S.A. at the Ordinary General Shareholders Meeting held on 9 May 2014.

- Mr. Juan Iranzo Martín resigned from his post as independent director of Red Eléctrica Corporación, S.A. on 13 October 2014.

- Mr. Santiago Lanzuela Marina was appointed proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), by co-optation, at the Board of Directors Meeting of 29 July 2014.

o Auditing Committee.

Of the eleven (11) Auditing Committee meetings held in 2014, no Directors failed to attend.

o Corporate Responsibility and Governance Committee.

Of the twelve (17) Corporate Responsibility and Governance Committee meetings held in 2014, there have been 2 proxies and 1 absence.

• **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 were broadened in 2013 as a result of amending the Regulations, 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 64% 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 By-laws.

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 By-laws 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 that are currently being examined by the Corporate Responsibility and Governance Committee and by the Board of Directors. Steps are expected to be taken in 2015 on the matter, by these corporate bodies.

Another counterbalancing measure was approved by the Company's Board of Directors at its meeting held on 23 December 2014, following a proposal from the Chairman of the Board of Directors and subject to a prior report from the Governance and Corporate Liability Committee, consisting of increasing the number of members on each Board Committee- Auditing Committee and Governance and Corporate Responsibility Committee- from three (3) members to four (4). This measure has reinforced the presence of independent directors on the Board Committees, given that an independent director has been included on each Committee amend both Committees have three (3) independent directors and one (1) proprietary director.

## CEO's ESG-Environmental, Social and Governance commitment.

The CEO, as evidence of his firm personal commitment to social responsibility and the best practice in good corporate governance, has given instructions so that the Company, for and on his behalf, may make monetary donations to certain foundations, for an amount representing his total remuneration in 2014 under the 2009-2013 long-term remuneration plan.

Said donations have been made in favour of the ADECCO Foundation and the Comillas-ICAI University Foundation. The first donation, as part of ADECCO Foundation's activities to encourage collaboration towards creating employment and supporting social responsibility projects (entrepreneurs, groups with difficulties to access the job market, etc.), has been assigned to the MUJER 2020 Project. The second donation has been used to finance final-year university projects in matters related to the promotion of training, research, innovation and investment in human and technical capital and in the energy field.

- **Directors' duties and responsibilities.**

The internal Corporate Governance rules of Red Eléctrica have established strict and complete rules on 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 Capital Companies Act (introduced by Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Capital Companies Act, which, in short, and deriving from the power in the seventh provision of Act 3/2009, revised -by regulating, clarifying and harmonizing- the Joint Stock Companies Act, Limited Liability Companies Act, Title X of the Securities Market Act 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 Board of Directors Regulations provides devices in order to act against potential infringements of Corporate Governance rules on the part of directors.

As stated in Chapter I above, following the entry into force of Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, novelties have been introduced in relation to directors' duties; when the Board Regulations are reviewed to fully conform to the changes derived from the LSC reform, the necessary formal adjustments will be carried out.

The main novelties introduced in the Capital Companies Act, with respect to duties, are described below:

- The duty of care of directors is described and specified.
- Obligations are redrafted, derived from directors' duty of loyalty (such as the duty of secrecy or to refrain in a conflict of interest) and are now mandatory, as well as the consequences of a breach; other new obligations are added, such as the obligation of directors to act according to their free judgment, without accepting instructions or commitments with third parties; and, in general, the need to adopt the necessary measures to avoid any potential conflict of interest with the Company.
- Further details are provided on obligations derived from the duty to avoid conflicts of interest, redrafting some of the current obligations derived from the duty of loyalty, already regulated in several provisions of the LSC.
- Situations are regulated where directors may be released from the need to fulfil their obligations derived from the duty of loyalty and duty to avoid conflicts of interest (such as transactions executed with the Company, taking advantage of a business opportunity or the possibility of competing with the Company).

Without prejudice to the foregoing, the duties that are currently gathered in the Board of Directors Regulations, applicable insofar as they do not conflict with Act 31/2014, of 3 December, are provided below:

**- Duty of diligent management**

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

**• 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 By-laws 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 2014, the following removals, resignations and other circumstances took place:

- The Board of Directors Meeting of 28 January 2014 accepted the resignation presented by Mr. Alfredo Parra García-Moliner, from his post as proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI).

- In light of the notice provided by the Chairman of the Board of Directors, Mr. José Folgado Blanco, to the Governance and Corporate Responsibility Committee, before reaching the age of 70 years (which took place on 3 April 2014), where he formally handed over his post to the Board of Directors, pursuant to Article 22.2.a) of the Board Regulations, and based on the opinion issued by the Governance and Corporate Responsibility Committee, at its meeting held on 16 January 2014, in the sense that his resignation as director was not necessary, the Board of Directors, at a meeting held on 28 January 2014, unanimously agreed to ratify his position as director and chairman of the Board of Directors; clearly, Mr. Folgado is fully capable and capacitated to perform his duties on the Board of Directors of Red Eléctrica Corporación, S.A., as evidenced by the value he has been providing to the Company as its chairman. Consequently, Mr. Folgado's office as director, approved by the General Shareholders Meeting, was extended until 19 April 2016.

- At the Ordinary General Shareholders Meeting held on 9 May 2014, the term expired to which the directors Mr. Rui Manuel Janes Cartaxo and Mr. Miguel Boyer Salvador had been appointed.

- The Board of Directors Meeting of 29 July 2014 accepted the resignation presented by Mr. José Angel Partearroyo Martín, as proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI).

- The Board of Directors of Red Eléctrica Corporación, S.A., at its meeting of 28 October 2014, accepted the resignation presented by Mr. Juan Iranzo Martín in a letter dated 13 October 2014, from office as independent director.

## • **Director's Portal**

The Directors' Portal is a project that began 5 years ago, 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 Director's Portal is constantly reviewed to ensure it is always up to date and that all possible improvements are made.

In 2015, a new update of the Portal is expected to materialize: in light of the relevant progress made in IT over the last few years and based on reasonable experience in Portal use, it has been deemed appropriate to conduct a structural and functional review of the Director's Portal, in order to introduce technical improvements (software modernization, compatibility with new mobile electronic devices and navigators, etc.), resulting in a more modern and efficient application.

## • **Evaluation of the Board.**

For a number of years, the self-evaluation process of RED ELÉCTRICA's Board of Directors has involved external consultants specialising in the field, which provides the Board with a more objective and independent view on the issues discussed.

The self-evaluation process for the 2013 financial year, which focused on the Board of Directors and its Committees, including the Chairman, lead independent director and Secretary of the Board, was assisted for the first time by (PwC), given that KPMG, current external auditor of the Red Eléctrica Group, had been in charge for several years. This decision was adopted by the Board of Directors, further to a proposal from the Governance and Corporate Responsibility Committee.

The self-evaluation process was based on interviews to the Company directors by PwC managers, under the supervision and coordination of the Governance and Corporate Responsibility Committee and lead independent director. During the interviews, the

directors gave their opinion on a series of questions related to quality and efficiency in the operation and performance of the Board and other Management Bodies. Furthermore, those directors who also belonged to the Auditing Committee or Governance and Corporate Responsibility Committee replied to a set of specific questions about these bodies, in order to obtain more details of how they operate.

The final Report on the conclusions obtained in the 2013 self-evaluation process was approved by the Board of Directors Meeting of 29 July 2014.

Further to PwC's self-evaluation, based on interviews with directors, it was ascertained that the efficiency and adequate operation of the Company's Management Bodies have constituted solid features in its performance over 2013, obtaining a very positive valuation on the operation of its various Management Bodies. The directors coincided on the opinion that 2013 has been a year of consolidated cohesion of both the Board of Directors and other bodies.

Furthermore, a positive valuation was made by most directors in relation to formal aspects of these bodies, particularly with respect to availability, professionalism and preparation of the meetings and the quality of discussions.

A high score was also obtained by the performance of duties entrusted to the various Management Bodies. The directors positively highlighted the link amongst the members of the Management Bodies and the Senior Management. Furthermore, the 2013 self-evaluation revealed that the Company is well ahead in corporate governance matters, as it has implemented various practices that exceed the legal requirements in force at the date of the self-evaluation. This practice is related to:

- The presentation of the Board of Directors remuneration and Annual Report on directors' remuneration to a binding vote, as separate points of the General Meeting Agenda.
- Evaluation of the Management Bodies by an independent expert.
- Creation of the role of "lead independent director".
- The level of gender diversity within the Board of Directors.
- The level of transparency of the Annual Corporate Governance Report.

Furthermore, as a result of the 2013 self-evaluation process, several steps have been identified, carried out within the Board over the past year, which will continue to be reflected upon in 2014 and successive years, in order for RED ELÉCTRICA to continue moving forward towards good governance:

- To continue examining alternatives that enable a balance of power in the Board's composition, as a result of accumulation of the posts of chairman and chief executive, following the steps taken in 2013 (appointment of the lead independent director, consolidated role of Board Committees, etc.).
- To continue working towards the refreshment of directors' knowledge, particularly in matters related to corporate governance, the energy sector and international markets, allowing them to continue reinforcing the Board's capacities.
- To continue reinforcing the role of Lead Independent Director (LID), given that companies are gradually acquiring better knowledge and experience about the relevance of this figure and it is expected that corporate governance matters will remain a priority for companies over the next few years.

The self-evaluation process for 2014, which is currently underway, again includes an evaluation of the Board and its committees, to include the chairman, lead independent director and secretary of the Board. As was the case in 2013, support is being provided by an independent firm, PwC. Below we describe the preliminary results of the

evaluation process conducted on the quality and efficient operation and performance of the Management Bodies of Red Eléctrica over 2014. The evaluation process has been based on interviews to Red Eléctrica directors in order to gather opinion on various matters related to how the Company's Management Bodies work.

After analysing the preliminary conclusions, below we highlight those issues that have been very positively appraised by directors or have improved with respect to previous years:

- Regarding the structure and composition of the Board of Directors, most directors agree on the fact that it is adequate both in terms of size and type of member directors.
- Another positive aspect is adequate operation of the Board of Directors, efficient decision-making and the generation of a good level of discussion on the Board, highlighting the chairman's role in this field.
- Furthermore, directors have highlighted reinforced capacities in the Board's composition, as a result of incorporating new profiles in the appointment of new directors over the past year.
- There is great satisfaction with the good interaction between the Board of Directors and Senior Management, particularly due to the readiness of company executives, their professionalism and preparation of their hearings.
- The chairman has received a very high score both as regards his role as chairman and as chief executive, and the development of the areas of responsibility entrusted.
- Directors are very satisfied with the internal operation and formal aspects of both the Auditing Committee and Government and Corporate Responsibility Committee- another issue to be highlighted.
- Directors are in favour of the existence of a lead independent director, whose responsibilities will continue to be make progress over the next few years.
- Finally, after several years during which it was one of the first IBEX companies to present its Annual Report on Directors Remuneration to the binding vote of the General Meeting, most directors have highlighted the high level of transparency and information achieved in disseminating the design, structure and content of the Remuneration Policy amongst the shareholders.

Furthermore, a series of challenges have been set for the Management Bodies of Red Eléctrica for the coming year:

- To continue making progress in matters related to the company's strategy and investments, given them more prominence in Board meetings.
- Given the relevance this year of all matters related to Corporate Governance and the new model implemented in Spain, there is a new focus on this issue, strengthening the training of directors in this field and in everything related to directors' responsibility.

- To continue developing the relationship between the Management Bodies and investors and proxy advisors, analysing and determining the interaction and involvement of the Board in these stakeholders.
- To analyse the impact of new regulatory requirements foreseen in the reform of the Capital Companies Act on the company's governance model.

Finally, please note that Act 31/2014, of 3 December, reforming the LSC, has included the obligation of listed companies to annually conduct a self-evaluation of their Board of Directors, incorporating an Action Plan as a result of this process (Art. 529.9), which Red Eléctrica has been fulfilling for some years now.

• **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 II, to which readers are referred to avoid unnecessary repetitions.

**CHAPTER V.- BOARD COMMITTEES**

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 By-laws and the Regulations of the Board of Directors, the Company has two Board committees: the Auditing Committee and the Corporate Responsibility and Governance Committee. The functions and responsibilities of the Committees are established in the Corporate By-laws and in the Regulations of the Board of Directors, which are adapted to current legislation and recommendations in Corporate Governance matters.

In 2013, as already expressed in this report, the Corporate By-laws 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 shareholders, 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.

Following the reform of the Capital Companies Act (Act 31/2014), the latest international practice and recommendations has been consolidated as regards Committee composition, independence and qualifications of their members. The main aspects of this reform do not affect the corporate regulations of Red Eléctrica because, as indicated above, these had already been included when the By-laws and Board Regulations were amended, as approved in 2013, and given that the vast majority of these were already being *de facto* fulfilled prior to the amendment. Nevertheless, these corporate rules are being reviewed to ensure that they fully adapt in 2015 to the new Act.

The main novelties related to Board Committees (introduced by Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance) are:

- It is now necessary to establish one Committee or two separate Committees, along with the Auditing Committee, for Appointments and Remuneration.
- Both the Auditing Committee and Appointments and Remuneration Committee should fully consist of non-executive directors, two of whom should at least be independent.
- The chairman of each Committee will be designated from amongst independent directors.
- The minimum competences of both Committees are established.

The Company's Board of Directors, at a meeting held on 23 December 2014, further to a proposal made by the chairman of the Board of Directors and subject to a prior opinion from the Government and Corporate Responsibility Committee, agreed to increase the number of members on each Board Committee- the Auditing Committee and Governance and Corporate Responsibility Committee- from three (3) to four(4) members. With this counterweight, the presence of independent directors has been reinforced on the Board Committees, given that each Committee has included an independent director, resulting in both Committees consisting of three (3) independent directors (75% of their members) and one (1) proprietary director.

Following this increase, on the Auditing Committee two (2) of its four (4) members are women (50%) and on the Governance and Corporate Responsibility Committee three (3) of its four (4) members are women (75%). Furthermore, at 31 December 2014, both Board Committees are chaired by a female independent director. In addition to reinforcing the independence of Board Committees, female membership has been reinforced.

For greater detail, as usual, Chapter IV, Title III herein includes a copy of the Annual Activity Report of both Board Committees, for the 2014 financial year.

### **1. Auditing Committee**

As indicated above, since 23 December 2014 the Auditing Committee is comprised of four members, pursuant to Article 23 of the Corporate By-laws 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. As a result of this increase, the independent director Mr. Antonio Gómez Ciria has been appointed member of the Auditing Committee for a three-year term, based on his outstanding knowledge and accredited experience in accounting and auditing matters, as may be seen in the professional profile included in this Report.

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 2014, the Committee was exclusively comprised of External Directors, with a majority of Independent Directors. The composition of the Company's Auditing Committee at 31 December 2014, and on the date of approval of this report, is:

Director	Position	Type of Director
Paloma Sendín de Cáceres	Chairwoman	External independent
M <sup>a</sup> Ángeles Amador Millán	Member	External independent
Fernando Fernández Méndez de Andés	Member	External proprietary (SEPI)
Antonio Gómez Ciria	Member	External independent

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. The professional profiles of the members indicate knowledge and experience in accounting or auditing matters, or both, taken into account in their appointment, as foreseen in Article 13.1 of the Regulations of the Board of Directors, following its amendment in 2013.

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

Luis Villafruela 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 2014, regarding an audit of the Annual Accounts of the Company and its Group for the 2013 financial year, the external auditor of the Company and its Group has explained the auditing process conducted and the final opinion of the auditors. The Committee decided to endorse the 2013 Annual Accounts.

#### ➤ **Functions**

Under Article 23 of the Corporate By-laws and Article 14 of the Regulations of the Board of Directors, the functions of the Auditing 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 latest modification to the Regulations of the Board of Directors approved in March 2013, encompasses the requirements of Additional Provision 18 of the Securities Market Act, adapts it to Article 23.1 of the Corporate By-laws and to the best international practices of Corporate Governance and also includes certain functions being undertaken, de facto, by the Committee.

The recent reform of the Capital Companies Act to improve corporate governance has introduced minimum competences of the Auditing Committee, which is why the Corporate By-laws and Board Regulations will be subject to a forthcoming review in order to fully adapt to the new Act. Although the idea will be to fully adjust to the LSC reform the tasks assigned to the Auditing Committee, most of which are already materially reflected in the Corporate By-laws and Regulations of the Board of Directors currently in force, of interest and relevance is the express assignment of a duty to supervise the “task” risk management system.

Of these groups of powers entrusted to the Auditing Committee, in the current Regulations of the Board of Directors, 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 supervising the investments, 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 Auditing 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 By-laws.

4. In relation to compliance with *legal provisions and internal rules*, the Regulations establish an obligation on the Auditing 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 Corporate 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 *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**

Act 31/2014, of 3 December, has established the obligation of listed companies to create an Appointments and Remuneration Committee, chaired by an independent director, consisting of at least two independent directors, and totally made up of non-executive directors. It has also gathered minimum competences in appointment and remuneration matters. At Red Eléctrica, The Committee that has been executing all these duties and responsibilities for years now is the Governance and Corporate Responsibility Committee. Both the composition and duties of the Governance and Corporate Responsibility Committee materially fulfil the requirements of the LSC reform (Art. 529.15 LSC), although the necessary adjustment will be necessary to the Corporate By-laws and Regulations of the Board of Directors in 2015 to ensure its full conformity to the LSC.

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 incorporates the best Corporate Government practices included in the LSC, 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 even before the modification of the Regulations of the Board of Directors in 2013, to adjust the composition of the Corporate Responsibility and Governance Committee and, for the first time, to have no participation by the Company's CEO.

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 2014, several changes have taken place in the composition of the Governance and Corporate Responsibility Committee:

- The Board of Directors, at its meeting of 25 February 2014, has appointed Mr. Francisco Ruiz Jiménez as proprietary director, representing Sociedad Estatal de Participaciones Industriales (SEPI), as member of the Governance and Corporate Responsibility Committee, for the three-year term foreseen in the Board Regulations, in order to cover the vacancy arising on the Committee as a result of Mr. Alfredo Parra García-Moliner's resignation from his post of proprietary director, on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), which was accepted by the Company's Board of Directors at its meeting held on 28 January 2014.

- On 13 October 2014, Mr. Juan Iranzo Martín resigned as independent director and Chairman of the Committee; said resignation was accepted by the Board of Directors on 28 October 2014. Following his resignation, the Board of Directors Meeting designated the independent director, Ms. M<sup>a</sup> José García Beato, as members of the Governance and Corporate Responsibility Committee, for a three-year term, following a proposal made by the Chairman of the Board of Directors and after receiving a report from the Governance and Corporate Responsibility Committee. Furthermore, the Governance and Corporate Responsibility Committee, at a meeting held on 6 November 2014, appointed the independent director Ms. Carmen Gómez de Barreda Tous de Monsalve, Chairperson of the Committee, also for a three-year term. Ms. Gómez de Barreda is currently acting as lead independent director since her designation by the Board of Directors, at a meeting held on 28 May 2013, as proposed by the Committee.
- After increasing the number of Committee members, as agreed by the Board of Directors Meeting of 23 December 2014, the Governance and Corporate Responsibility Committee now has four members instead of three, three of whom are independent external directors (75%) and one a proprietary director. As a result of this increase, Ms. Socorro Fernández Larrea, independent director, has been appointed member of the Governance and Corporate Responsibility Committee for a three-year term.

At the end of the 2014 financial year and at the date of approval of this Report, the Committee has the following composition:

Director	Post	Type of director
Carmen Gómez de Barreda Tous de Monsalve	Chairperson	Independent & external
Francisco Ruiz Jiménez	Member	Proprietary & external (SEPI)
María José García Beato	Member	Independent & external
Socorro Fernández Larrea	Member	Independent & external

The Committee members have been appointed by the Board of Directors further to a proposal from the chairman, for a three-year term, subject to a prior report from the Governance and Corporate Responsibility Committee.

All Committee members have proven capacity to perform the tasks entrusted to the Commission, based on their long-term experience and knowledge.

Independent directors represent a voting majority (75%) on the Governance and Corporate Responsibility of the Committee, and the chairman must necessarily be an independent director.

#### ➤ **Functions**

The basic responsibilities of the Governance and Corporate Responsibility Committee, according to Article 24 of the Corporate By-laws, are provided below:

- a) For independent directors, to report on and propose, in advance, any proposals made by the Board of Directors to the General Meeting for the designation or removal of directors, even in co-optation situations. To propose to the Board the appointment of a lead independent director.
- b) To propose to the Board of Directors a remuneration policy for directors and senior executives, and to ensure its compliance.
- c) To perform duties of reporting, supervision and proposal in Corporate Governance matters, as determined by the Board of Directors.

The foregoing basic responsibilities have been specified further 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 Act, 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- 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.
- 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 Ordinary 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.
  - 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 CEOs 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, CEOs, 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.
- 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 Auditing Committee on the modification of the Internal Code of Conduct on the Securities Markets.
- 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 chief 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 Auditing 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.
- 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.

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 principle 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 been included in the reform of the Capital Companies Act, which came into force on 24 December 2014 (Art. 529.7 LSC), which provides that where the Chairman is also the CEO, the Board of Directors, with the abstention of the CEO, 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 of Directors of Red Eléctrica, at its 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 Ordinary General Shareholders Meeting of 18 April 2013, proceeded to amend the Corporate By-laws 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 of Red Eléctrica, further to Article 25.bis) of the Corporate By-laws, 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 the Regulations of the Board of Directors, 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 of 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 of the Shareholders:

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

Although the role of the lead independent director has broad responsibilities acknowledged in the Corporate By-laws and Regulations of the Company's Board of Directors, in 2015 it is expected that these will be reviewed further to the review of the Regulations of the Board of Directors, to full conform to the LSC.

The lead independent director has arranged various meetings with independent directors in 2014, to find out their opinions and coordinate common position, on various matters discussed by the Board of Directors.

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

The persons holding Senior Management positions at the Company at 31 December 2014, excluding the CEO, were as follows:

<b>Name</b>	<b>Position</b>
Carlos Collantes Pérez-Ardá	Director General of Transmission
Andrés Seco García	Director General of 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 Ordinary General Shareholders Meeting, present information on the total remuneration paid to these executives.

As regards remuneration for financial year 2014 for these executives, please see the Annual Reports on Remuneration and Board of Directors Remuneration Policy, approved by the Board of Directors in February 2015, which includes information on Senior Executives, as well as the information contained in the Company's 2014 Annual Accounts.

## **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 Spanish Unified Good Governance 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

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<sup>7</sup> The existing policy is the 4th edition, approved by the Board of Directors on 25/11/2014.

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

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.”*

The Integrated Risk Management System includes any relevant tax risks for the Company. Nevertheless, in order to cover the provisions established in Act 31/2014, amending the Capital Companies Act to improve corporate governance, complementary action is being taken in the system with respect to tax risks.

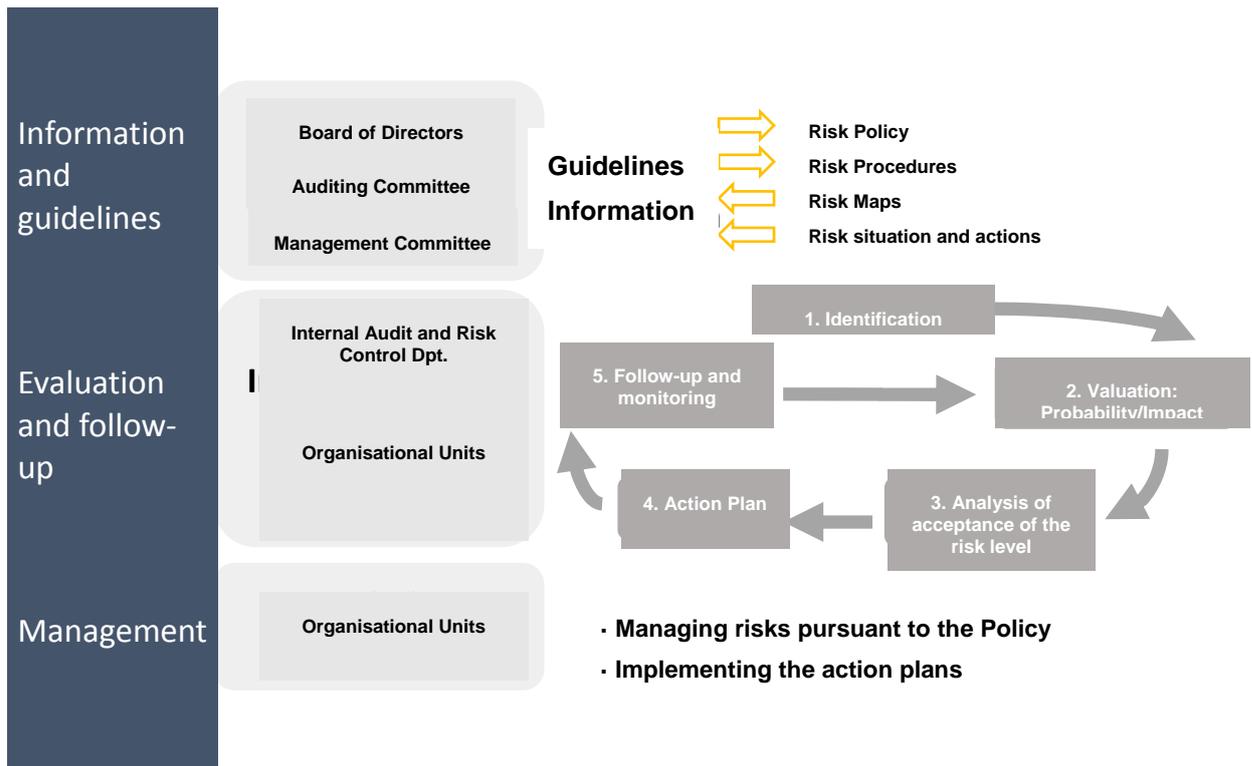
An update of the Integrated Risk Management Policy, approved by the Board of Directors in November 2014, was aimed at maintaining it fully updated in relation to the Group’s Strategic Plan at all times. This Policy is available on the corporate website, under “Corporate Governance”.

## **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.

## 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 at least twice a year, notwithstanding the information it receives on a regular basis from the Auditing Committee as part of the ongoing monitoring process carried out by the Committee.

The **Auditing 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.

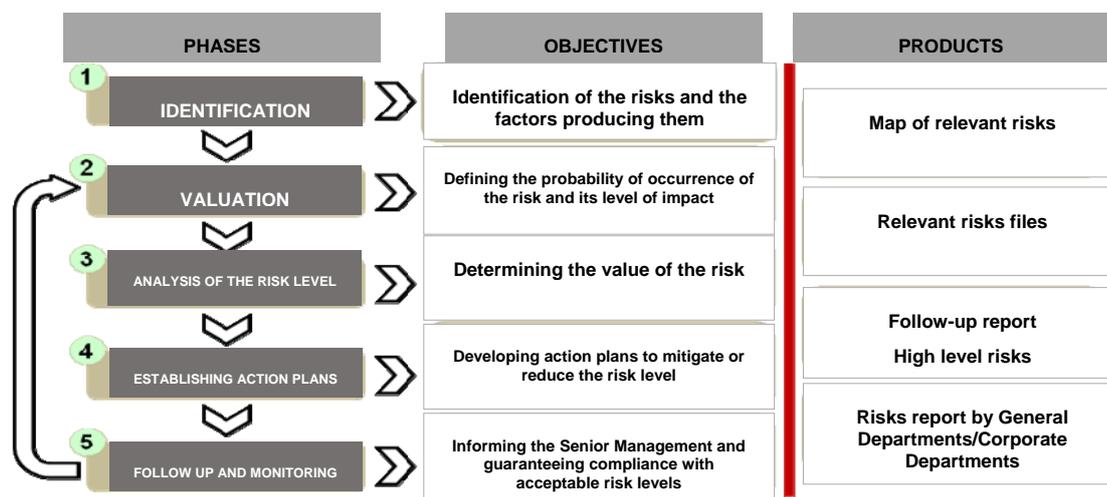
The **Global Risk Control And Regulation Department**, which reports to the Office of the Chairman, is, through the **Internal Auditing and Risk Control Department**, responsible for managing the process of identification, analysis, evaluation and periodic control of risks. This department provides reports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



### 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:

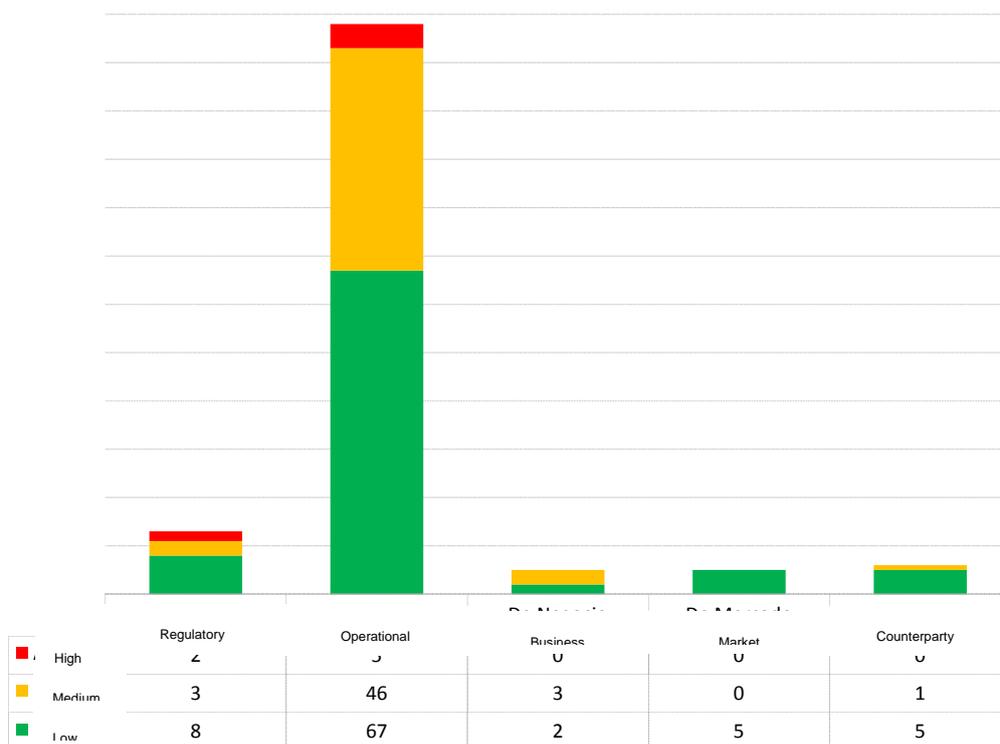
- **Regulatory risks:** Possible changes to the legal framework regulating the business, which could affect its revenues and/or costs, either directly or through the introduction of new requirements and conditions for the operation of the business.

- **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:

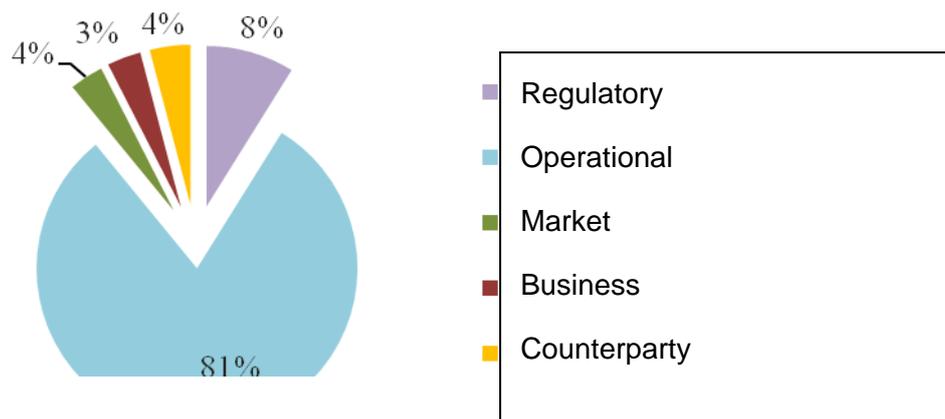
- **Market risks**
- **Business risks outside the electricity system**
- **Counterparty risk**

As a consequence of risk analysis undertaken by Red Eléctrica Group in the latest **Risks Map** produced, 148 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.

Risk distribution by category is shown below:



For the monitoring of risks, the current Risk Management System includes the supervision of 561 action plans, aimed at reducing the level of risk, and 317 indicators to control their performance.

In 2015 it is expected to include in the Risk Map those risks related to a breach by the Company of the Criminal Code, further to the Criminal Risk Prevention Programme.

#### 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:

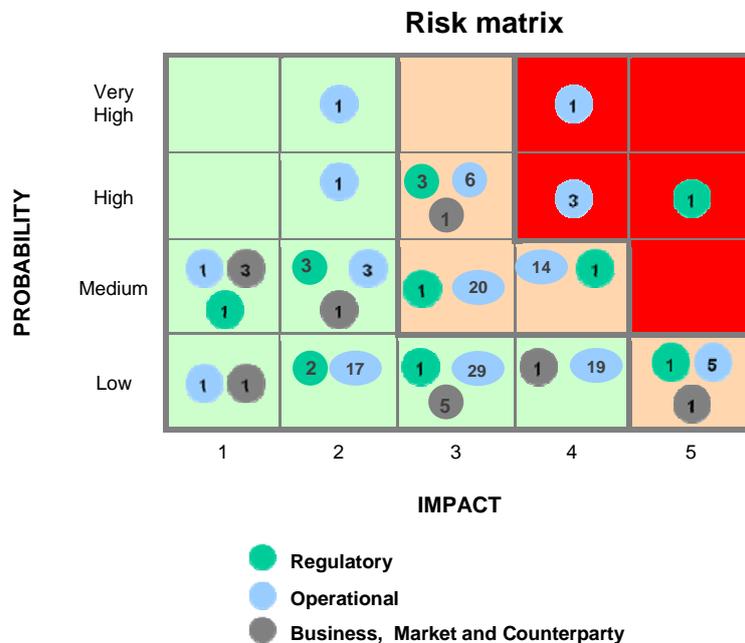
- Very high.
- High.
- Medium.
- Low.

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.

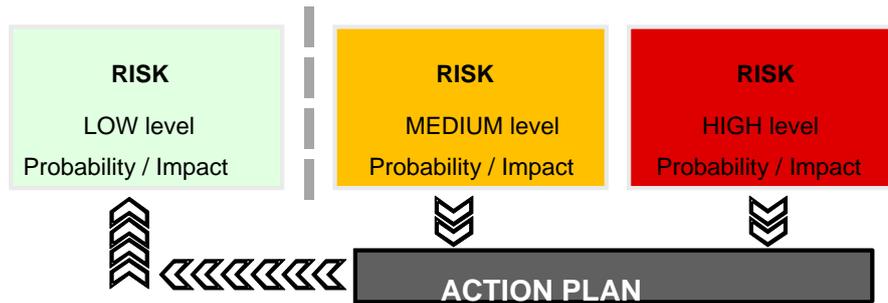
For each of these four elements, Red Eléctrica Group has produced a table showing 5 levels of effect or impact. In the cases of electricity supply and the income statement, the measurement is quantitative in nature (MWh and Euros) whereas for basic strategies and reputation it is qualitative.

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).



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



### 5. Materialised risks in 2014.

There were no materialised risks of note in the 2014 fiscal year. (However, please see the information in Section E.5 of Annex I Standard Form 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 Standard Form 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 Auditing 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 Auditing 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 Auditing 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 Auditing 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.

By virtue of Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, further details are provided on the obligations derived from the duty to avoid conflicts of interest, reformulating some of the obligations derived from the duty of loyalty that were already regulated in the LSC prior to this reform. Furthermore, details are provided on the competences of the Board of Directors and Auditing Committee in relation to director-related operations. The LSC reform, amongst others, will require a review of Articles 5, 14 and 32 of the Board Regulations in order to accordingly adjust them to current law.

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 By-laws 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 Auditing Committee on the degree of compliance with the Code and on any incidents that may occur.

Pursuant to article 13 of the Internal Regulations on Securities Market Conduct, the Auditing 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 Auditing 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.

At the same time as the Regulations of the Board of Directors are reviewed, it will be examined in 2015 whether the LSC reform entails adjustments in the Internal Regulations on Securities Market Conduct, particularly as regards related-party operations.

### **TITLE III- THE YEAR 2014 IN RED ELÉCTRICA**

#### **CHAPTER I.- MAIN SHAREHOLDER AGREEMENTS.**

The Company has adopted the main shareholder agreements during the 2014 financial year:

1. The Board of Directors of Red Eléctrica Corporación, S.A., at a meeting held on 25 February 2014, agreed to appoint Mr. José Ángel Partearroyo Martín, as proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), as a result of the vacancy left by Mr. Alfredo Parra García-Moliner's resignation from office as proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI).
2. The Board of Directors, at its meeting held on 25 February 2014, appointed Mr. Francisco Ruiz Jiménez proprietary director, as a member of the Governance and Corporate Responsibility Committee, for a 3-year term.
3. The Board of Directors Meeting of 25 February 2014 approved, subject to a prior favourable opinion from the Governance and Corporate Responsibility Committee, the 2013 Annual Corporate Governance Report of the company, the Annual Report on Independent directors' Remuneration for 2013, and drew up the Annual Accounts and Management Report for the 2013 financial year.
4. At the Board of Directors Meeting held on 2 April 2014, it was agreed to present to the Ordinary General Shareholders Meeting the appointment of Mr. Antonio Gómez Ciria and Ms. Socorro Fernández Larrea as independent directors of the Company, and to ratify the designation of Mr. José Ángel Partearroyo Martín a proprietary director, on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), pursuant to the provisions established in Article 244 of the Capital Companies Act issued by the Board of Directors at its meeting held on 25 February 2014, to replace and cover the resignation of Mr. Alfredo Parra García-Moliner.

5. Also at this meeting of 2 April 2014, the Board of Directors approved all proposed agreements and reports to be presented to the Ordinary General Shareholders Meeting, for the 2013 financial year, which was then called.
6. At the Ordinary General Shareholders Meeting held on 9 May 2014, the following resolutions were adopted as separate and independent points of the agenda:
  - To approve the Annual Accounts (Balance Sheet, P&L Account, total Statement of Changes in Net Wealth, Cash Flow Statement and Annual Report) and the Management Report of Red Eléctrica Corporación, S.A. for the financial year ending 31 December 2013.
  - To approve the Consolidated Annual Accounts (Consolidated Balance Sheet, Consolidated P&L Account, Consolidated Global P&L Statement, Consolidated Statement of Changes in Net Wealth, Consolidated Cash Flow Statement and Consolidated Annual Report) and the Consolidated Management Report of the Consolidated Red Eléctrica Group. for the financial year ending 31 December 2013.
  - To approve the allocation of results proposed by the Board of Directors at its meeting of 25 February 2014 and, consequently, to distribute the profit of the 2013 financial year.
  - To approve the management of the Board of Directors of Red Eléctrica Corporación, S.A. over the 2013 financial year.
  - To approve the ratification and appointment of Mr. José Ángel Partearroyo Martín as proprietary director, on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), pursuant to the opinion delivered by the Governance and Corporate Responsibility Committee.
  - To approve the appointment of Ms. Socorro Fernández Larrea as independent director, replacing the independent director Mr. Miguel Boyer Salvador, further to the opinion and proposal made by the Governance and Corporate Responsibility Committee.
  - To approve the appointment of Mr. Antonio Gómez Ciria as independent director, replacing the independent director Mr. Rui Manuel Janes Cartaxo, further to the opinion and proposal made by the Governance and Corporate Responsibility Committee.
  - To approve the following proposals for a derivative acquisition of treasury stock, each one separately voted upon:
    - Authorisation for a derivative acquisition of treasury stock by the Company or by Red Eléctrica Group companies, and their direct delivery to employees and executive directors of the Company, and of Red Eléctrica Group companies, as remuneration.
    - Approval of a Remuneration Plan addressed to the Management and executive directors of the Company and of Red Eléctrica Group member companies.
    - Revocation of prior authorisations.

- Regarding the Board's remuneration:
    - To approve the Annual Report on Remuneration and Remuneration Policy of the Board of Directors of Red Eléctrica Corporación, S.A.
    - To approve the payments made to the Board of Directors of Red Eléctrica Corporación, S.A., in 2013.
    - To approve the payments made to the Board of Directors of Red Eléctrica Corporación, S.A., in 2014.
  - To delegate powers for the execution and registration of each and every resolution adopted by the General Shareholders Meeting in the 2013 financial year.
  - To inform the General Shareholders Meeting of the Annual Corporate Governance Report of RED ELÉCTRICA for 2013.
7. The Board of Directors, at a meeting held on 29 July 2014, agreed to appoint the shareholder, Mr. Santiago Lanzuela Marina as proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), until the first General Meeting is convened to cover the vacancy left on the Board of Directors as a result of Mr. José Ángel Partearroyo Martín's resignation from office as proprietary director, representing Sociedad Estatal de Participaciones Industriales (SEPI).
  8. The Board of Directors, at a meeting held on 29 July 2014, approved the Self-Evaluation Report of the Board of Directors for the 2013 financial year; this process received external advice from PriceWaterhouseCoopers (PwC),
  9. The Board of Directors Meeting of 28 October 2014, further to its permanent commitment to adopt the best practice in Corporate Governance matters, approved the Report on Gender Diversity and Equality Policy, which had been forwarded by the Governance and Corporate Responsibility Committee. This Report is published on the corporate website.
  10. The Board of Directors, at its meeting of 28 October 2014, accepted Mr. Juan Iranzo Martín's resignation as independent director and designated the independent director Ms. María José García Beato as member of the Governance and Corporate Responsibility Committee, in order to hold office for a three-year term, as proposed by the chairman of the Board of Directors and subject to a prior opinion from the Governance and Corporate Responsibility Committee.
  11. The Governance and Corporate Responsibility Committee, at a meeting held on 6 November 2014, named the independent director Ms. Carmen Gómez de Barreda Tous de Monsalve, chairwoman of the Governance and Corporate Responsibility Committee, for a 3-year term.
  12. The Board of Directors Meeting of 25 November 2014 approved the Corporate Governance Policy and an update of the Integrated Risk Management Policy,

further to a proposal from the Governance and Corporate Responsibility Committee. These Policies are published on the corporate website.

13. The Board of Directors of Red Eléctrica Corporación, S.A., at a meeting held on 23 December 2014, agreed to set at four the number of members of each Board Committee and to designate Ms. Socorro Fernández Larrea as member of the Governance and Corporate Responsibility Committee, and Mr. Antonio Gómez Ciria as member of the Auditing Committee, both further to a proposal from the chairman of the Board of Directors and subject to a prior opinion from the Governance and Corporate Responsibility Committee.

14. The Board of Directors Meeting held on 23 December 2014 approved an update of the Corporate Responsibility Policy, which is published on the Company website.

## **CHAPTER II.- MAIN EXTERNAL RECOGNITIONS.**

Below are the main external recognitions awarded to the Company in 2014, related to Corporate Governance; although some of them were obtained as part of a corporate responsibility distinction, Corporate Governance aspects have also been positively evaluated.

1. “Bronze” Sustainability Yearbook 2015 award; this annual publication analyses sustainability performance is almost 2,000 companies belonging to 55 sector worldwide, distinguishing those with outstanding activity in sustainable development matters.
2. Permanence on the FTSE4Good sustainability index since the Company joined in 2008. This index includes listed companies all over the world that meet the requirements previously established by the index.
3. Inclusion in the MSCI ESG (MSCI Global Sustainability Indexes, MSCI Socially Responsible Indexes, MSCI Global Climate Index and MSCI Global Environmental Index) in 2014, which include companies with the best appraisal in sustainability of ESG (Environmental, Social and Governance) matters in the relevant sector.
4. Included for the first time in Euronext-Vigeo (Eurozone 120, Europe 120, Global 120) sustainability indexes, covering the 120 companies with the greatest progress in corporate governance, social and environmental matters.
5. Permanence on the Sustainability Index (ESI) Excellence Europe for the second consecutive years after it joined in 2009.
6. Renewed membership of the ECPI index family since it joined in 2007.
7. Permanence on the STOXX Global ESG Leaders indexes, providing a representative global sample of leading companies in environmental, social and good governance criteria.
8. First place, for the seventh consecutive year, in the 2013 report on “Social responsibility culture, policies and practice for IBEX 35 companies”, drawn up by

the Observatory for Corporate Social Responsibility. The Company enjoys the leading position in Corporate Governance matters.

9. Single distinction awarded to Red Eléctrica “for its transparency and exhaustiveness in the corporate governance section of the company’s website”, in the “Fundación Compromiso y Transparencia” Report, on the governance of listed companies.

### **CHAPTER III.- RELEVANT EVENTS NOTIFIED TO THE MARKETS.**

The Company informs the CNMV and published on its website, immediately following approval by the Board of Directors, the call notice, proposed resolutions and other documentation related to the General Shareholders Meeting.

Furthermore, the same day the Meeting is held, or on the immediately following business day, the Company sends to the CNMV the wording of all resolutions approved, by notifying a Relevant Event.

The text of all resolutions approved is also available on the Company website, once the CNMV has been informed.

In order to reinforce the right of information held by Company shareholders abroad, representing approximately 70%, all documentation presented for approval and information at the Meeting, including the Annual Corporate Governance Report, is translated into English and is published, in English, on the Company website, on the same publication date as the Relevant Events and related documentation.

During 2014, the following Relevant Events were notified to the CNMV:

- 1. Information on regulations affecting remuneration for activities.**  
On 9 January 2014, the Company sent a presentation explaining the new remuneration system applied to electricity transmission activities.
- 2. Changes in the Board of Directors.**  
On 28 January 2014, the Company announced that the Board of Directors Meeting held on 28 January 2014 had accepted the resignation of Mr. Alfredo Parra García-Moliner from his post as proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI).
- 3. Information on dividends.**  
On 26 February 2014, the Company announced that the Board of Directors of Red Eléctrica Corporación, S.A., at a meeting held on 25 February 2014, had agreed to propose to the Ordinary General Shareholders Meeting the payment of a gross amount of 2.5422 euros for each share entitled to dividends.
- 4. Information on results.**  
On 26 February 2014, the Company informed of its 2013 results.
- 5. Intermediate financial information.**  
On 26 February 2014, the Company sent information on the results of 2H2013.

**6. Changes in the Board of Directors and Commission.**

On 26 February 2014 the Company announced that the Board of Directors, at its meeting held on 25 February 2014, had appointed Mr. José Ángel Partearroyo Martín by co-optation as proprietary director of the Company, on behalf of Sociedad Estatal de Participaciones Industriales (SEPI). At the same meeting, the proprietary director Mr. Francisco Ruiz Jiménez was appointed member of the Governance and Corporate Responsibility Committee.

**7. Annual information on directors' remuneration.**

On 26 February 2014, the Company sent its Annual Report on directors' remuneration for the 2013 financial year.

**8. Annual Corporate Governance Report.**

On 26 February 2014, the Company sent its 2013 Annual Corporate Governance Report.

**9. Information on results and financial situation.**

On 26 February 2014, the Company presented its 2013 results and its estimates for 2014.

**10. Call notices and resolutions of General Meetings.**

On 3 April 2014, the Company announced that the Board of Directors Meeting held on 2 April 2014 had agreed to call an Ordinary General Shareholders Meeting, to be held at first call on 8 May 2014, at 12:30 hours, at Auditorio del Complejo de los Duques de Pastrana, Paseo de la Habana 208, Madrid, and at second call, on 9 May 2014, in the same place and time, in order to discuss and resolve on the matters included in the agenda.

**11. Business data and financial situation.**

On 10 April 2014, the Company sent information on the tender launched by ADIF for the assignment and commercial exploitation of its optic fibre network, not for railway use.

**12. Intermediate financial information.**

On 30 April 2014, the Company forwarded information on 1Q2014.

**13. Information on results.**

On 30 April 2014, the Company provided the results of 1Q2014.

**14. Ratings.**

On 30 April 2014, the Company announced that the rating agency Standard & Poor's had increased the rating prospects of Red Eléctrica up to positive, from neutral. Red Eléctrica Corporación, S.A., Red Eléctrica de España, S.A.U. and Red Eléctrica de España Finance, B.V. still enjoy a long-term rating of A-, and of F2 for the short term.

**15. Call notices and resolutions of General Meetings.**

On 9 May 2014, the Company forwarded the full text of the resolutions adopted by the Ordinary General Shareholders Meeting, held on 9 May 2014, following a proposal from the Board of Directors of Red Eléctrica de Corporación, S.A.

**16. Offerings to subscribe and sell fixed income and other instruments.**

On 16 June 2014, the Company announced that Red Eléctrica Corporación, S.A., through its subsidiary Red Eléctrica Financiaciones, S.A.U. and further to its EMTN Programme, has launched an issue of Bonds on the Euromarket for three hundred (300) million euros.

**17. Ratings.**

On 24 June 2014, the Company announced that the rating agency Standard & Poor's has increased the rating prospects of Red Eléctrica up to positive, from neutral. Red Eléctrica Corporación, S.A. and its subsidiary Red Eléctrica de España, S.A.U. still enjoy a long-term rating of 'BBB' and short-term rating of 'A-2'.

**18. Changes in the Board of Directors.**

On 29 July 2014 the Company announced that the Board of Directors Meeting held on 29 July 2014 had appointed Mr. Santiago Lanzuela Marina proprietary director of Red Eléctrica Corporación, S.A., on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), as a result of Mr. José Angel Partearroyo Martín's resignation.

**19. Information on results.**

On 30 July 2014, the Company announced its 1H2014 results.

**20. Intermediate financial information.**

On 30 July 2014, the Company sent information on its 1H2014 results.

**21. Information on results.**

On 30 July 2014, the Company presented the results of 1H2014.

**22. Ratings.**

On 22 September 2014 the Company announced that the rating agency Standard & Poor's had issued a new report on Red Eléctrica, maintaining the company's rating and prospects.

**23. Loans, facilities and guarantees.**

On 7 October 2014, the Company announced that Red Eléctrica de España S.A.U. had formalized a credit facility agreement for 800 million euros and 5-year maturity, with the possibility of extending it to seven years.

**24. Changes in the Board of Directors.**

On 13 October 2014, the Company announced that Mr. Juan Iranzo Martín had resigned that same date as independent director of Red Eléctrica Corporación, S.A., in a letter addressed to the Company chairman.

**25. Business data and financial situation.**

On 22 October 2014, the Company announced that Red Eléctrica had become aware of the enactment of a Supreme Decree in Bolivia, related to the nationalization process of Transportadora de Electricidad.

**26. Composition of the Governance and Corporate Responsibility Committee.**

On 28 October 2014, the Company announced that the Board of Directors of Red Eléctrica Corporación, S.A. had designated the independent director Ms. María José García Beato as member of the Governance and Corporate Responsibility Committee.

**27. Intermediate financial information.**

On 29 October 2014 the Company sent information on the results of 3Q2014.

**28. Information on results.**

On 29 October 2014, the Company announced its results for 3Q2014.

**29. Changes in the Board of Directors.**

On 7 November 2014, the Company announced that the Governance and Corporate Responsibility Committee, at a meeting held on 6 November 2014, had designated as its chairwoman the independent director Ms. Carmen Gómez de Barreda Tous de Monsalve.

**30. Business data and financial situation.**

On 13 November 2014, the Company announced that Red Eléctrica Internacional, S.A.U., a 100% owned subsidiary of Red Eléctrica Corporación, S.A. and the Plurinational State of Bolivia, had reached a final agreement to compensate the nationalization of Transportadora de Electricidad (TDE).

**31. Business data and financial situation.**

On 20 November 2014, the Company announced that Red Eléctrica Internacional, S.A.U. (REI) and ADIF Alta Velocidad (ADIF) had formalized an agreement to assign the use and management rights inherent to ADIF's optic fibre wire network exploitation, for a 20-year term.

**32. Committee membership.**

On 23 December 2014, the Company announced that the Board of Directors of Red Eléctrica Corporación, S.A., at a meeting held on 23 December 2014, had agreed to set at four the number of Committee members, designating at the same meeting the independent director Ms. Socorro Fernández Larrea, as member of the Governance and Corporate Responsibility Committee, and the independent director Mr. Antonio Gómez Ciria, as member of the Auditing Committee.

**33. Information on dividends.**

On 23 December 2014, the Company announced that the Board of Directors of Red Eléctrica Corporación, S.A., at a meeting held on 23 December 2014, had agreed to distribute dividends on account of the 2014 results for a gross amount of 0.8323 euros/share.

Furthermore, the Relevant Events notified to the CNMV in 2015, before the approval of this Report, have been:

**34. Changes in the Board of Directors.**

The Board of Directors of Red Eléctrica Corporación, S.A., at a meeting held on 13 February 2015, has appointed Mr. José Luis Feito Higuera as independent director of the Company.

## **CHAPTER IV.- ANNUAL ACTIVITY REPORTS OF BOARD COMMITTEES.**

Below is a complete reproduction of the Annual Activity Reports of the Governance and Corporate Responsibility Committee and Auditing Committee, for the 2014 financial year.

### **2014 ACTIVITY REPORT OF THE GOVERNANCE AND CORPORATE RESPONSIBILITY COMMITTEE.**

#### **1. Introduction.**

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The Committee's 2015 Action Plan, as foreseen in Article 16.6.a) of the Board Regulations, includes the issue of an annual report on activities carried out during 2014, to be included in the Annual Corporate Governance Report, which constitutes the object of this document.

#### **2. Legal background, structure, duties and composition**

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##### **2.1. Legal background.**

The Company's Board of Directors, at a meeting held on 13 March 2013, agreed to modify the Board Regulations in order to update its content according to the legislative amendments affecting joint stock companies, to adjust to relevant practice in Corporate Governance- particularly of an international nature- and to improve the organisation and operation of the Board of Directors and its Committees.

As a result, the General Shareholders Meeting held on 18 April 2013 approved an amendment of the Company By-laws in order to, amongst other matters, adjust the provisions on the Auditing Committee and Governance and Corporate Responsibility Committee included in the Company By-laws to essential practice and international recommendations in good Corporate Governance matters. Of interest in this regard is the fact that the new By-laws foresee the need for the majority members in both Committees to be independent directors.

Act 31/2014, of 3 December, amending the Capital Stock Companies Act [*Ley de Sociedades de Capital*] (LSC) in order to improve Corporate Governance matters (in force since 24 December 2014), now requires that all listed companies create an Appointments and Remuneration Committee, chaired by an independent director, consisting of at least two independent directors, all the members of which must be non-executive directors. It also foresees minimum competences in appointment and remuneration matters. For years, Red Eléctrica's Governance and Corporate Responsibility Committee has already been executing all these duties and responsibilities. Both in terms of composition and duties, the Governance and Corporate Responsibility Committee materially meet all the requirements of the LSC reform (Article 529.15 LSC). However, the Company By-laws and Board of Directors Regulations should be accordingly adapted in 2015 in order to fully conform to the LSC.

##### **2.2. Structure and duties.**

Article 24.2 of the Company By-laws and Articles 15 and 16 of the Board of Directors Regulations regulate the structure, composition and duties of the Governance and Corporate Responsibility Committee.

The Committee has been assigned competences as regards the appointment and removal of directors and senior executives, their remuneration, fulfilment of administrators' duties, compliance with corporate governance principles and rules, and in Corporate Responsibility policy matters.

The Committee meets as often as necessary to ensure the adequate performance of its duties. In any case it will meet at least each quarter, if called by the Chairman or a meeting is requested by two of its members and, furthermore, each time the Board of Directors or the Chairman thereof request a report or adoption of proposals.

Article 15.5 of the Board of Directors Regulations provides that meetings may be called, including any associated documentation, through electronic means that guarantee the necessary security and confidentiality of the call and relevant documentation.

Any such call will include the agenda and will be forwarded by the Chairman or Secretary of the Committee to each one of its members at least three days before the date scheduled for the meeting, until it needs to be called in a shorter period of time for emergency reasons.

Article 15.5 of the Board Regulations foresees the possibility, in emergency and exceptional situations, of convening Committee meetings through a multiple telephone call, conference call or other means of distance communication allowing a meeting to be convened, provided that all the Committee members so agree.

The Committee may convene with the attendance of the majority members and will adopt its decisions or recommendations by an absolute majority of votes, which will be recorded in the minutes at the end of the meeting. To ensure adequate performance of its duties, the Committee may propose to the Board of Directors that advice be provided by independent professionals, and it may access any type of Company information or documentation it may need to that effect.

### **2.3. Composition.**

Article 15.1 of the Board of Directors Regulations foresees that the Governance and Corporate Responsibility Committee will consist of the number of directors determined by the Board of Directors, ranging from at least three and a maximum of five, from amongst external directors, the majority of which will be independent directors. The Committee Chairman will be an independent director chosen from amongst its members and the Secretary will be the secretary of the Board of Directors.

Committee members will be appointed and removed by the Board of Directors as proposed by the Board Chairman. Committee members will hold office for a three-year term and may be re-elected, and will abandon their post if they lose director status or if this is agreed by the Board of Directors, further to a report issued by the Governance and Corporate Responsibility Committee. The Chairman will be replaced every three years and may be re-elected once a year has transpired since he was removed from office.

During 2014 several changes have taken place in the composition of the Governance and Corporate Responsibility Committee:

- The Board of Directors, at its meeting of 25 February 2014, has appointed Mr. Francisco Ruiz Jiménez as proprietary director, representing Sociedad Estatal de Participaciones Industriales (SEPI), as member of the Governance and

Corporate Responsibility Committee, for the three-year term foreseen in the Board Regulations, in order to cover the vacancy arising on the Committee as a result of Mr. Alfredo Parra García-Moliner's resignation from his post of proprietary director, on behalf of Sociedad Estatal de Participaciones Industriales (SEPI), which was accepted by the Company's Board of Directors at its meeting held on 28 January 2014.

- On 13 October 2014, Mr. Juan Iranzo Martín resigned as independent director and Chairman of the Committee; said resignation was accepted by the Board of Directors on 28 October 2014. Following his resignation, the Board of Directors Meeting designated the independent director, Ms. M<sup>a</sup> José García Beato, as members of the Governance and Corporate Responsibility Committee, for a three-year term, following a proposal made by the Chairman of the Board of Directors and after receiving a report from the Governance and Corporate Responsibility Committee. Furthermore, the Governance and Corporate Responsibility Committee, at a meeting held on 6 November 2014, appointed the independent director Ms. Carmen Gómez de Barreda Tous de Monsalve, Chairperson of the Committee, also for a three-year term. Ms. Gómez de Barreda is currently acting as lead independent director since her designation by the Board of Directors, at a meeting held on 28 May 2013, as proposed by the Committee.
- After increasing the number of Committee members, as agreed by the Board of Directors Meeting of 23 December 2014, the Governance and Corporate Responsibility Committee now has four members instead of three, three of whom are independent external directors (75%) and one a proprietary director. As a result of this increase, Ms. Socorro Fernández Larrea, independent director, has been appointed member of the Governance and Corporate Responsibility Committee for a three-year term.

At the end of the 2014 financial year and at the date of approval of this Report, the Committee has the following composition:

Director	Post	Type of director
Carmen Gómez de Barreda Tous de Monsalve	Chairperson	Independent & external
Francisco Ruiz Jiménez	Member	Proprietary & external (SEPI)
María José García Beato	Member	Independent & external
Socorro Fernández Larrea	Member	Independent & external

All the Committee members have proven their capacity to execute the duties entrusted to the Commission, based on their long-term experience and knowledge.

Below is a brief summary of each member's career at 31 December 2014:

- Carmen Gómez de Barreda Tous de Monsalve is a Graduate in Economics & Business Studies, Universidad Pontificia de Comillas (ICADE), and holds a Masters in Business Administration, IESE (Executive MBA), Universidad de Navarra.

The currently works as General Manager of Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES).

Amongst other positions, she had worked as Head of the Co-generation Department, Sales Management of Enagás, Head of the International, Petrochemical and Marketing Departments of Repsol, Head of Services Development, Unión Fenosa, Deputy Manager for Oil Markets on the Spanish Energy Commission (CNE), Head of Institutional Relations and Communication, BP Oil España, Representative of the Spanish Delegation in the Emergency Matters and Markets Groups of Agencia Internacional de la Energía (AIE).

- Francisco Ruiz Jiménez holds a Degree in Law, Universidad Pontificia de Comillas (ICADE E-1) and a Diploma in Business Consultancy, Universidad Pontificia de Comillas (ICADE E-1); he is also an Accounts Auditor and Real Estate Agent.

Currently, he is the General Manager of Sociedad Estatal de Participaciones Industriales (SEPI).

Amongst other positions, he has worked as a Credit Entity Inspector, General Supervision Directorate of the Bank of Spain, assigned to various tasks.

In the academic world, he has lectured in Accounting and the Spanish Financial System at Centro de Estudios Financieros.

- María José García Beato is a Graduate in Law, Universidad de Córdoba, and works as Legal Counsel for the State.

She currently also holds positions as Vice-Secretary of the Board of Directors, General Secretary and member of the Management Committee of Banco Sabadell S.A.; Secretary of the Board of Sabadell United Bank (Miami); trustee of Fundació Privada Banc Sabadell; trustee of Fundación Española de Banca para Estudios Financieros; Secretary of the Board of Trustees of Fundación de Estudios de Economía Aplicada; member of the Advisory Council of Wolters Kluwer España, S.A.; and a member of the Advisory Council of Fundación Cajasur.

She has worked in legal matters related to the State Administration. Amongst others, she has been Head of the Legal Department of the Data Protection Agency; Legal Counsel for the State in the Deputy Management of Consultative Services, Legal Service Management of the State; Spanish representative on the Consultative Committee of the European Council in data protection matters; and Legal Counsel for the State in the General Communications Secretariat of the Ministry of Development. In the Administration of Justice, she has worked as Legal Counsel for the State in the High Court of Justice of Madrid; General Manager of the Cabinet of the Ministry of Justice; Deputy Secretary of Justice and Legal Counsel for the State in the Legal Department, in relations with the Spanish National Court. She has been director of Sociedad Estatal de Gestión Inmobiliaria de Patrimonio and Infoinvest, director of Sociedad Estatal Correos y Telégrafos and Sociedad Estatal para Exposiciones Internacionales.

In the banking and financial sector, she has managed the Legal Department of Banco Sabadell, S.A., has worked as secretary of the Board of Directors of Banco Urquijo,

S.A., and director of Banco Guipuzcoano, S.A., Banco CAM, S.A. and Banco Gallego, S.A.

- Socorro Fernández Larrea is a Civil Engineer, Universidad Politécnica de Madrid.

She currently belongs to the Board of Directors of AMPER, S.A., as proprietary director, on behalf of Emilanteos, S.L. She is CEO of the consultancy firm JustNow, S.L., member of the Board of Directors of the engineering firm SEG, S.A., member of the Management Board of Asociación Española de Directivos and chairperson of its Internationalization Committee, and a member of the Board of Directors of the construction company ACR.

In the private business world, amongst other positions, she has worked as General Manager of COPISA Constructora Pirenaica S.A., Vice-President of ANCI, Asociación de Constructores Independientes, Regional Manager of the construction company Seop, Obras y Proyectos, S.A., National Representative of Ferrovial Conservación, S.A., and Representative in Castilla-La Mancha of Ferrovial-Agroman, S.A. In the public sector, she worked as General Manager of Roads, Hydraulic Works and Transport, Regional Council of Public Works, Autonomous Community Board of Castilla-La Mancha.

### **3. Activities carried out during 2014.**

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The Board of Directors has been informed of the matters discussed at the Committee meetings, through the Director's Portal (Board Intranet), and at immediately subsequent Board meetings, and copies of the Committee minutes have been provided to all directors, once approved.

The most outstanding activities carried out by the Governance and Corporate Responsibility Committee during 2014 are described below:

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

- A favourable opinion delivered to the Board of Directors, as regards the inapplicability of the CEO's resignation, due to his upcoming 70th birthday, after the director formally handed over office to the Board.
- Valuation of the criteria to be taken into account when covering the vacancies arising in the Board of Directors and Committees, and profile analysis of the candidates proposed during the selection process.
- Favourable opinions delivered to the Board of Directors, on the proposals made by the Chairman of the Board, to appoint three directors as members of the Governance and Corporate Responsibility Committee.
- Favourable opinions delivered to the Board of Directors, to be presented to the General Meeting, on the proposed appointment of proprietary directors.
- Analysis and approval of the proposed appointment of three independent directors, to be presented to the Board of Directors.
- Approval of the appointment of the Chairperson of the Governance and Corporate Responsibility Committee.

- Analysis and favourable opinion delivered to the Board on the proposals made by the Board Chairman to increase the number of Board committee members, in both cases to four, and to appoint directors to cover any new openings.
- Analysis of the report on the compatibility of independent director status in Red Eléctrica Corporación S.A.
- Review of the standard annual statement provided by independent directors.

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

- Approval of the proposed assessment of compliance with 2009-2013 Long-Term Objectives.
- Approval of the proposed assessment of compliance with the 2013 Objectives of the Board of Directors and management team.
- Approval of a new remuneration model and rewards for the management team.
- Approval of the definition of 2014 Objectives for the Management Committee.
- Approval of the 2014 Business and Administrative Objectives.
- Analysis of supervision of 2014 Business, Administrative and Management Committee Objectives.
- Approval of the proposed remuneration for the Board in 2014 and quantification of variable remuneration in 2013, to be presented to the Board.
- Favourable opinion delivered to the Board of Directors on the 2014 Annual Remuneration and Remuneration Policy Report of the Board of Directors, to be presented to the General Meeting.
- Analysis of the international benchmarking applied to the Board's remuneration plan and CEO of Red Eléctrica, together with the consultancy firm Towers Watson.
- Approval of the proposed remuneration for the Board of Directors in 2015, to be presented to the Board of Directors, further to international Corporate Governance recommendations.

### **3.3. In relation to rules and activities in Corporate Governance matters:**

- Analysis and favourable opinion delivered to the Board of Directors on the Corporate Governance Policy.
- Analysis and approval of the proposed amendment of the Internal Regulations on Stock Exchange Conduct, to be presented to the Board of Directors.
- Approval of the proposed 2013 Annual Corporate Governance Report, to be presented to the Board of Directors.
- Analysis of the call and agenda, and approval of proposed resolutions and reports to be presented to the Board, in relation to the 2013 Ordinary General Shareholders Meeting.
- Analysis of the Board's self-evaluation report, conclusions and recommendations issued in the external evaluation process of the Board of Directors and its Committees and Chairman, for the 2013 financial year, along with PwC.

- Analysis of the 2013 Evaluation Report of the Management Team.
- Analysis and approval of the proposed assignment to PriceWaterhouseCoopers of the 2014 evaluation process to be presented to the Board of Directors. Commencement of the work.
- Analysis of the 2013 Annual Report on Gender Diversity and Equality, to be presented to the Board.
- Analysis and favourable opinion delivered to the Board of Directors on the 2013 Annual Report on Criminal Risk Prevention.

#### **3.4. In relation to Corporate Responsibility:**

- Analysis and favourable opinion delivered to the Board of Directors on the Corporate Responsibility Policy.
- Analysis and presentation to the Board of the 2013 Corporate Responsibility Management Report.
- Analysis and approval of the 2013 Annual Report on Management of the Code of Ethics, to be presented to the Board of Directors.
- Analysis of reports on results obtained in Corporate Responsibility matters.

#### **3.5. Other activities:**

- Approval of the 2013 Annual Activity Report for the Committee, and incorporation into the 2013 Annual Corporate Governance Report.
- Approval of the Committee's 2015 Action Plan.
- Approval of the Committee meeting calendar for 2015.

## **4. Directors' attendance at meetings.**

During the seventeen (17) meetings held, there were 2 proxies and 1 non-attendance.

## **2014 ACTIVITY REPORT OF THE AUDITING COMMITTEE.**

### **1. Introduction**

The 2015 Annual Plan for the Auditing Committee's Activity foresees the issue of a Committee Activity Report, for activities carried out during 2014, to be included in the Company's Annual Corporate Governance Report, which constitutes the object of this document.

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

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#### **2.1 Structure and duties:**

Amongst other duties, the Auditing Committee is entrusted with providing support to the Board of Directors when supervising the process to prepare the Company's economic-financial data, as well as internal control, risk control management, the independence of external auditors, compliance with legal provisions and internal regulations, and relations with the Company shareholders.

Article 23 of the Company By-laws and Article 13 of the Board Regulations provides a minimum of three and a maximum of five members of the Board's Auditing Committee, all of whom will be non-executive external directors, with a majority of independent directors, appointed for a three-year term and designated according to their knowledge, experience in accounting or auditing matters, or both.

The Chairman of the Committee is chosen by its members from amongst the independent directors who belong to the same, and the Secretary is the Board of Directors' Secretary.

The Board of Directors of RED ELECTRICA, at its meeting held on 23 December 2014, decided to increase from three to four the number of Auditing Committee members, by appointing an independent director, Mr. Antonio Gómez Ciria, as a new member of the Auditing Committee. Further to this appointment, the percentage of independent directors belonging to the Auditing Committee has been reinforced (75%) and a new Committee member has been included, with an outstanding career in accounting, auditing and risk management matters.

Throughout the 2014 financial year, the Committee has exclusively consisted of external directors, with a majority of independent directors.

#### **2.2 Composition**

The composition of the Company's Auditing Committee, at 31 December 2014, valid at the date of approval of this Report, is indicated below:

Director	Post	Type of Director
Paloma Sendín de Cáceres	Chairperson	Independent & external
M <sup>a</sup> Ángeles Amador Millán	Member	Independent & external
Fernando Fernández Méndez de Andés	Member	External proprietary director (SEPI)
Antonio Gómez Ciria	Member	Independent & external

The directors belonging to the Committee are particularly qualified for office, and offer long-term professional experience; they have held highly demanding positions outside Red Eléctrica, performing tasks related to those entrusted to the Committee.

Article 13.1 of the Board Regulations provides that the Committee will consist of a majority of independent directors, all of whom will be designated based on their knowledge and experience in accounting or auditing matters, or both.

Below is a brief summary of each member's professional career, describing their knowledge and experience in accounting and auditing matters:

- Ms. Paloma Sendín de Cáceres holds a Degree in Economics and Business Studies from Universidad Autónoma de Madrid. Commercial Technician and State Economist. Commercial Representative of the State.

Amongst other positions, she has worked as Head Economic and Commercial Advisor, Economic and Commercial Office of the Spanish Embassy in Dublin; General Manager for Administration and International Relations, Organization of Latin American States for Education, Science and Culture (OEI); Director of the Nuclear Security Council (CSN); General Director of Mines; General Manager of the Institute for Coal Mining Restructuring and Alternative Development, Ministry of Industry and Energy; General Manager for ICEX Development and Director of several entities. Currently, she is a member of the Advisory Council of the Higher Technical School of Mining Engineers and Energy in Madrid, and a member of the Advisory Committee for the Foundation of Energy Studies.

- Ms. M<sup>a</sup> Ángeles Amador Millán holds a Degree in Law from Universidad Complutense de Madrid.

Amongst other positions, she is the General Technical Secretary of the Ministry of Public Works and Urban Planning, Deputy Secretary of the Ministry of Health and Consumers, Minister of Health and Consumers and Vice-President of the Constitutional Commission of Congress. She has also chaired the Company's Governance and Corporate Responsibility Committee, which she joined as director in May 2005. She is currently a practising lawyer.

- Mr. Fernando Fernández Méndez de Andés holds a PhD in Economics. He is a Lecturer in Economics and Head of the International Financial System Chair, IE Business School.

Amongst other positions, he belongs to the Expert Commission for the 2013-2014 Tax Reform, is a member of the 2013 Bruegel Evaluation Committee, Chief Economist of the International Monetary Fund, Head Economist and Manager of the Studies Service of Banco Central Hispano (BCH) and Banco Santander, Vice-Chancellor of Universidad Europea de Madrid and Universidad Antonio de Nebrija and Head of the European Business Programme. Currently, he works as an international consultant in macroeconomic, regulatory and financial matters; Chairman of Pividal Consultores; External Advisor of the Strategic Committee of Grupo Financiero Arcano; Collaborator of Fundación de Estudios Financieros; Independent Director of Bankia, S.A.; and Independent Director of BFA Tenedora de Acciones, S.A.U., amongst others.

- Mr. Antonio Gómez Ciria is a Graduate in Economics and Business Studies from Universidad Complutense de Madrid. He holds a Degree in Mathematical Science from Universidad Complutense de Madrid, and a Masters in Business Administration and Management (Executive MBA), IESE.

Amongst other positions, he is General Manager for Administration and IT and belongs to the Management Committee of Grupo FCC. Member of the Advisory Council of the Internal Auditors Institute and a Member of its Executive Committee. General Technical Secretary of InverCaixa, investments management company of La Caixa Group. Chairman of Instituto de Contabilidad y Auditoría de Cuentas, ICAC. Director of Empresa Nacional de Uranio, S.A. Director of Empresa Nacional de Autopistas, S.A. Director of Tabacalera, S.A. Market Inspection Manager of the Governing Company of the Madrid Stock Exchange. Deputy Manager of Studies and Budgetary Planning, Radio Televisión Española. Head of the Auditing and Accounting Department of Banco de Crédito Agrícola. Auditor/Inspector of the General State Inspectorate. He currently belongs to the Consultative Expert Council in Accounting and Financial Information (ECIF), General Council of the Association of Economists.

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

Committee meetings have been regularly attended by Mr. Luis Villafruela Arranz, Corporate Manager for Regulation and Global Risk Control, and Mr. Juan Lasala

Bernad, Corporate Economic-Financial Manager, in order to respectively report on several matters in their areas of competence. Other members of these departments, amongst others, have also joined the meetings when summoned, to inform on matters within their remit.

In 2014, as regards a review of the Annual Accounts of the Company and its Group for the 2013 financial year, the external accounts auditor of the Company and its Group explained to the Committee the auditing processes carried out in the Group. The Committee agreed to issue a favourable opinion on the 2013 Annual Accounts. Furthermore, the Commission has convened with the external auditor on other occasions to analyse various matters within its remit.

### **3. Activities carried out during 2014**

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On 10 December 2013, the Auditing Committee approved its Annual Plan of Action for 2014, based on the responsibilities allocated in the Company By-laws and in the Board of Directors' Regulations.

The Auditing Committee has reported its activities to the Board of Directors, at the Board meetings held immediately after each Committee meeting, and has made available to the directors, through the Director Portal, all documentation for the meetings and a copy of the minutes.

The Auditing Committee has convened over the 2014 financial year eleven (11) times, likewise informing the Board of Directors eleven times of the Committee's activities.

The Committee has executed the following main tasks over the 2014 financial year:

#### **1.1 In relation to financial-economic information:**

- Review of the 2013 Annual Accounts of the Company and its Consolidated Group, and the External Auditor's Report.
- Analysis of the estimated closing figures for 2013 of the Red Eléctrica Group, as well as the criteria used for the same.
- Analysis of the proposed allocation of results and distribution of dividends of Red Eléctrica Corporación, S.A. for the 2013 financial year, and issue of a favourable opinion.
- Review of financial information for market supervisory bodies.
- Supervision of the Company's Annual Corporate Governance Report for the 2013 financial year, in relation to the Committee's competences.
- Follow-up on monthly reports of the treasury stock.
- Follow-up on quarterly reports on operations with related parties.

- Analysis of the Report on Transactions executed amongst Red Eléctrica Group companies at 31 December 2014.
- Analysis of quarterly reports on related transactions.
- Favourable analysis and opinion on the proposed renewal of the European Commercial Paper (ECP) Programme.
- Analysis of the External Auditor's Report on the consolidated financial statements for 1H2014.
- Analysis of the Reports on bond issues launched during the 2014 financial year.
- Analysis of the proposed distribution of an amount on account of dividends for the 2014 financial year and issue of a favourable opinion to the Board.
- Analysis of certain proposals to authorise the coverage of funding needs and the issue of favourable opinions.
- Analysis of the report on the Group's Financing Structure.
- Analysis of the 2015 Budget and issue of a favourable opinion.

### **3.2 In relation to the internal control and risk management systems:**

- Analysis of a report drawn up by KPMG (external auditing firm) on the quality of the Group's internal control systems with respect to the 2013 annual accounts.
- Analysis of the Internal Financial Information Control System (SCIIF) for the 2014 financial year.
- Analysis of the Company's Risk Map at 31 December 2013.
- Analysis of the high-level risk situation report, on a quarterly and six-monthly basis.
- Review of the Annual Report for the 2013 financial year and of the Status Report for 1H2014, of the Control and Supervision Body of the Criminal Risk Prevention Programme.
- Analysis of the report on adjustment of the Integrated Risks Policy to the new methodology and format of the Red Eléctrica Group Policies, and issue of a favourable opinion to the Board.

### **3.3 In relation to the internal auditing services:**

- Analysis of the Report on internal audits conducted during the 2014 financial year and the results of each one.
- Analysis of the report on means and resources assigned to the Internal Auditing Service.
- Analysis of the report on status and main novelties of the internal regulatory system.

- Analysis of the Internal Auditing Report on the Internal Financial Information Control System (SCIIF) for the 2013 financial year and initiatives to control the risk of fraud.
- Analysis of the report on the criteria used to classify occupational accidents in Red Eléctrica.
- Analysis of the periodic report on occupational risk prevention throughout 2014.
- Analysis of quarterly Reports on compliance with the recommendations included in the Internal Auditing Service reports.
- Approval of the Internal Auditing Plan for 2015.
- Review of the Annual Activity Plan for the 2015 Integrated Risk Management System.

#### **3.4 In relation to external auditors:**

- Analysis of the external auditor reports on the 2013 annual accounts and the preliminary external auditing report for 2014.
- Analysis of the reports on external auditor impartiality, issued by KPMG Auditores, S.L. further to Act 12/2010, of 30 June.
- Analysis of the External Auditing Plan Report for the 2014, financial year, drawn up by KPMG.

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

- Analysis of the six-monthly reports and annual follow-up report on internal rules at 31 December 2013.
- Analysis of the Status Report and compliance with the Company's rules and procedures.
- Analysis of performance in internal regulatory management.
- Annual evaluation of compliance with the Internal Regulations on Stock Exchange Conduct.
- Review of the 2013 Annual Report on Occupational Health and Safety.
- Analysis of the report on the Healthy Company Programme, for its implementation in the Company.
- Analysis of the Annual Report on Management of the Code of Ethics.

#### **3.6 In relation to the Company shareholders:**

- Analysis of proposed resolutions of the Board, presented to the General Meeting, in matters within its remit, and of the agreement to call the General Meeting.

- Follow-up on possible initiatives, suggestions and complaints raised by the shareholders over the year.
- Participation of the Chairperson of the Auditing Committee at the Company's Ordinary General Shareholders Meeting, in order to explain the Auditing Committee's activities carried out during 2013 and to reply to the clarifications requested by the shareholders in relation to the Auditing Committee's activities.
- During the 2014 financial year, no initiatives, complaints or suggestions from the Company shareholders have been received.

### **3.7 Other activities:**

- Approval of the 2013 Annual Activity Report of the Auditing Committee, to be included in the Company's Annual Corporate Governance Report for 2013.
- Analysis of the reports on renovations in the Corporate Insurance Plan of Red Eléctrica.
- Approval of the meeting calendar for 2015.
- Approval of the Committee's Plan of Action for 2015.
- Analysis and opinions provided to the Board of Directors on relevant investment transactions (compensation agreement further to TDE's nationalization, assignment of the Chira-Soria hydraulic plant project, assignment of ADIF's optic fibre network, amongst others).

## **4. Directors' attendance at meetings**

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No absence or proxy has been granted by any member at the eleven (11) meetings held.

## **5. Review of the 2014 annual accounts**

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This Auditing Committee Meeting, where the Committee's activity report for 2014 is approved, has taken the following steps in relation to the 2014 financial year:

- Review of the 2014 Annual Accounts of the Company and its Consolidated Group and of the External Auditors Report.
- Analysis of the relevant proposals to allocate results and distribute dividends in Red Eléctrica Corporación, S.A.

As usual, the external auditor of the Company and its Group, KPMG, has attended in relation to this financial year, to provide the necessary clarifications and explanations to the Committee.

The Committee has issued a favourable opinion for both proposals.

#### **TITLE IV- RED ELÉCTRICA'S PROSPECTS IN CORPORATE GOVERNANCE MATTERS.**

In the ACGR for this financial year and as in previous years, a title is dedicated to Red Eléctrica's prospects in Corporate Governance matters, due to the relevance it has for current shareholders and potential investors, as well as future third parties interested in Red Eléctrica.

The statements made in this Title do not, *per se*, constitute any commitment or formal obligation for the Company, enforceable by third parties; they are merely possible steps and measures to be taken in 2015 and subsequent years, according to Red Eléctrica's tradition to continue including the best Corporate Governance practice, in light of the progress made in shareholder requirements and its Corporate Governance commitment.

During 2014, the Board of Directors has used the following basic tools, amongst others, to analyse the best practice in Corporate Governance, for its possible adoption by Red Eléctrica: an annual self-assessment of the Board with support from an external advisors, as has been the case for some years now (PwC); annual planning for improvement in Corporate Governance matters, filed by the Governance and Corporate Responsibility Committee with advice from specialized consultants; development of annual visiting schedule to institutional investors and proxy advisors; an external audit (Deloitte) on the management processes of the General Shareholders Meeting, to help identify certain issues to be improved upon; a review of practice compared to other listed companies, in order to draw up a new Corporate Governance Policy; and an analysis of the results obtained by the Company in 2014 in the Dow Jones Sustainability Index (DJSI), allowing room for improvement to be identified for the year 2015 and thereafter.

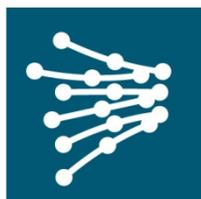
The Company's presence, as a member of the world's leading organization in Corporate Governance, the International Corporate Governance Network (ICGN), has been of help, one more year, to have first-hand knowledge of the most relevant international trends in Corporate Governance, and their progress, with the possibility of conducting an early analysis and implementation.

In the Company's Corporate Governance Policy, approved by the Board of Directors in November 2014, certain commitments to good corporate governance have been undertaken, which should be gradually included, or consolidated, by Red Eléctrica by adopting certain principles and practice, summarized in Title II above, which will be periodically supervised over a one-year period to guarantee compliance.

Below we highlight certain relevant issues which, amongst others, are being analysed or will be soon the object of discussion by the Board of Directors and its Committees:

- Review and progress in the Company's commitments to its shareholders, in order to consolidate a permanent relationship that is able to align the Company's interests with those of its shareholders, in the medium and long-term, to encourage mutual trust.
- Progress in analysing and implementing new counterweight measures in the structure and composition of the Board of Directors, guaranteeing an adequate balance of responsibilities and tasks.
- Full adaptation of the Company's corporate rules to the future Spanish Good Corporate Governance Code and best international practice in the matter.

- Strengthening of internal control tasks and risk management in certain fields of the Company's activity, and improvement in the quality of public information available on the matter.
- Implementation of a new Compliance Plan for the Company, and creation of an independent compliance unit.
- Permanent supervision of the remuneration structure of the Board of Directors, and enforcement of the directors remuneration policy of the Company, according to best Corporate Governance practice.
- Permanent analysis, update and improvement, under international standards, of the information contained on the Company website in Corporate Governance matters.
- Supervision and progress in the process to draw up and publish annual corporate information for the shareholders or other stakeholders, further to the principles of quality, clarity, integrity and informative simplicity, which are the grounds of the Integrated Report.



**RED ELÉCTRICA**  
CORPORACIÓN

OFFICIAL ANNEX

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

**ANNEX I**

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**ISSUER'S IDENTITY DETAILS**

FINANCIAL YEAR END

31/12/2014

TAX ID NUMBER  
(CIF) A-78003662

Corporate name:  
RED ELÉCTRICA CORPORACIÓN, S.A.

Registered Office:  
Paseo Conde de los Gaitanes, 177  
La Moraleja – Alcobendas  
28109 MADRID

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**A OWNERSHIP STRUCTURE**

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
17-05-1999	270,540,000	135,270,000	135,270,000

Indicate whether different types of shares exist with different associated rights:

Yes

No

**A.2 List the direct and indirect owners of significant ownership interests in your company at year-end, excluding directors:**

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	27,054,000	0	20.00%
HSBC HOLDINGS, PLC	0	4,381,395	3.24%
TALOS CAPITAL LIMITED	4,151,436	0	3.07%
THE CHILDREN'S INVESTMENT FUND MANAGEMENT (UK) LLP	0	4,151,436	3.07%

Name or corporate name of the indirect stakeholder	Through: name of corporate name of the direct stakeholder	% of total voting rights
HSBC HOLDINGS, PLC	HSBC HOLDINGS, PLC	4,381,395
THE CHILDREN'S INVESTMENT FUND MANAGEMENT (UK) LLP	THE CHILDREN'S INVESTMENT FUND MANAGEMENT (UK) LLP	4,151,436

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

**A.3 Complete the following tables on company directors holding voting rights through company shares:**

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MR. JOSÉ FOLGADO BLANCO	1,199	0	0.00%
MS. MARÍA DE LOS ÁNGELES AMADOR MILLÁN	0	0	0.00
MR. FRANCISCO RUIZ JIMÉNEZ	0	0	0.00%
MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	0	0	0.00
MS. PALOMA SENDÍN DE CÁCERES	0	0	0.00
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0	0	0.00
MS. MARÍA JOSÉ GARCÍA BEATO	5	0	0.00
MS. SOCORRO FERNÁNDEZ LARREA	0	0	0.00
MR. ANTONIO GÓMEZ CIRIA	0	0	0.00
MR. SANTIAGO LANZUELA MARINA	4	0	0.00

<b>% total of voting rights held by the Board of Directors</b>	<b>0.00%</b>
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Complete the following tables on share options held by directors:

**A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:**

**A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:**

**A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to Articles 530 and 531 of the Capital Companies Act ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable:**

Yes  No

**Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:**

Yes  No

**If any such covenants or agreements or concerted actions were amended or broken off during the year, please expressly describe:**

At the closing date of the 2014 financial year, the Company was not aware of any shareholders' agreements or covenants entailing an obligation to concertedly vote, or a common policy in the corporate management, or aimed at producing a material impact on the Company.

**A.7 Indicate whether any individuals or legal entities currently exercise control or could exercise control over the company in accordance with Article 4 of the Securities Market Act: If so, identify:**

Yes

No

Remarks
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**A.8 Complete the following tables on the company's treasury stock:**

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
147,203	0	0.11%

(\*) Through:

Give details of any significant variations during the year, pursuant to Royal Decree 1362/2007:

**A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders Meeting to issue, buy back and/or transfer treasury stock.**

The Spanish Companies Act (LSC) has consolidated the legal regime applicable to the treasury stock of companies established in Act 3/2009, of 3 April 2009, on Structural Modifications to Commercial Companies, without introducing any material amendments to the regime.

Over recent years, authorisation for delivery of treasury stock as remuneration to employees of the company and the Red Eléctrica Group has been submitted to the General Shareholders Meeting for annual renewal, even when still current. Although still current, authorisation for delivery of treasury stock for another 5 years was submitted to the General Shareholders Meeting held on 9 May 2014. The purpose of this was for the shareholders to renew the authorization granted last year and, furthermore, as a separate item on the agenda, it was also intended to establish a remuneration plan for members of senior management and the executive directors of Red Eléctrica Corporación, S.A, which may be extended to companies in its Consolidated Group. This allowed part of their compensation to be awarded in the form of company shares, on the same terms as last year and always within the maximum annual legal limit of €12,000 per participant, which enables certain tax advantages to be enjoyed (which are applied equally to all employees of the Company within their plan). This Plan requires a resolution with certain legally established conditions.

Accordingly, the General Shareholders Meeting of the Company held on 9 May 2014 gave authorization to the Board of Directors, pursuant to the provisions of Article 146 and related provisions of the Capital Companies Act and other applicable legislation, for the derivative acquisition of treasury stock in Red Eléctrica Corporación, S.A. by the Company itself and by companies of the Red Eléctrica Group, directly or indirectly, and insofar as the Board of Directors considers that the circumstances so dictate, subject to the following conditions:

- The maximum number of shares to be acquired must not exceed the established legal limit, provided that the other applicable legal requirements can also be fulfilled.
- Acquisitions cannot be made for a consideration higher than the market value of the shares at the time of acquisition, or for a consideration lower than 50% of the market price at that time.
- The methods of acquisition may consist of sale and purchase, swap or any other type of transaction for consideration or without consideration, as the circumstances so advise.
- Pursuant to the provisions of Article 146.1 b) of the Spanish Capital Companies Act, the acquisition, including any shares previously acquired by the Company and held as treasury stock, may not have the effect of leaving net equity below the amount of capital stock plus legal reserves or restricted reserves pursuant to the By-laws.

In accordance with paragraph three of Article 146.1 a) of the Capital Companies Act, the Board of Directors of the Company may use some or all of the treasury stock acquired under this authorization and the treasury stock already owned by the Company on the date of approval of the resolution to implement compensation programs consisting of the direct award of shares to employees and executive directors of the Company and companies in the Red Eléctrica Group.

For all of the foregoing, the Board of Directors is granted the broadest powers to request any authorizations and adopt any resolutions that may be necessary or appropriate for compliance with legislation in force, and the implementation and successful outcome of this resolution.

The term of this authorization is five (5) years as from the date of the aforementioned General Shareholders Meeting.

The General Shareholders Meeting expressly revoked and, therefore, rendered ineffective the authorization for the derivative acquisition of treasury stock given to the Board of Directors by the General Shareholders Meeting held on 18 April 2013. Act 26/2014, of 27 November, amending, amongst others, Act 35/2006, of 28 November, on Personal Income Tax, has introduced a new section 3 in Article 42.f), establishing new conditions for the delivery of working employees, cost-free or under-market prices, shares or participations in the Company or other Group companies. The

main condition added is that the offer be made in the same conditions for all Company workers, including its Group or subgroups.

**A.10 Give details of any restriction on the transfer of securities and/or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.**

Yes X

No

Description of restrictions
<p><b>Maximum percentage of voting rights that can be exercised by a shareholder subject to special legal restriction (Act 54/1997, of 27 November, additional provision twenty-three):</b></p> <p>3% (general) 1% (electricity sector)</p> <p><b>Maximum percentage of voting rights that may be exercised by a shareholder due to by-law restrictions:</b></p> <p>3% (general) 1% (electricity sector)</p> <p>Limits on shareholdings established in additional provision twenty-three of Act 54/1997, of 27 November (which remains in force by virtue of the single repealing provision of Electricity Sector Act 24/2013, of 26 December), following its amendment by Royal Decree-Law 13/2012, of 30 March, which incorporated certain added restrictions with respect to generation or commercialization companies. The special regime for Sociedad Estatal de Participaciones Industriales (SEPI) is maintained, whereby it must hold at least ten percent (10%) of capital in all cases.</p> <p>These legal provisions on the general and special shareholding regime are set out in Articles 5 and 14 and the Sole Additional Provision of the Corporate By-laws, and in Article 6.3 of the Regulations of the General Shareholders Meeting. The content of the foregoing is available on the Company's website: <a href="http://www.ree.es">www.ree.es</a>.</p> <p>There are no other additional by-law restrictions other than purely legal restrictions.</p>

**A.11 Indicate whether the General Shareholders Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.**

Yes  No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

**A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.**

Yes  No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

## **B GENERAL SHAREHOLDERS MEETING**

**B.1 Indicate the quorum required for constitution of the General Shareholders Meeting established in the company's By-laws. Describe how it differs from the system of minimum quorums established in the LSC.**

Yes  No

**B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the LSC:**

Yes  No

Describe how they differ from the rules established in the LSC.

**B.3 Indicate the rules governing amendments to the company's By-laws. In particular, indicate the majorities required to amend the By-laws and, if applicable, the rules for protecting shareholders' rights when changing the By-laws.**

The amendment of the Corporate By-laws of Red Eléctrica Corporación, S.A. presents no differences to the system provided for in Articles 285 ff. of the Capital Companies Act and which requires approval by the General Shareholders Meeting, with the majorities provided for in Article 194 and 201 of said Act, prior to the entry into force of Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance. The latter Act has introduced certain novelties in the majority system (Article 201 LSD). In particular, it is clarified that all resolutions will be adopted by a simple majority of votes, i.e. the resolution should obtain more votes in favour than against the present or represented capital stock. For resolutions to amend the By-laws and equivalent situations (Article 194 LSC) an

“absolute majority” is necessary if the quorum exceeds 50% of the capital stock and two thirds of the present and represented capital stock, if the quorum at second call does not reach 50% of the capital stock. One of the immediate consequences of this new regime, which has just recently come into force, will be an adjustment of the Corporate By-laws and Regulations of the Company’s General Meeting, which will be presented to the next Ordinary General Shareholders Meeting for approval. The Company By-laws in force, applied to the Ordinary General Shareholders Meeting held on 9 May 2014, do not include any differences with respect to Articles 285 ff. LSC, requiring the approval by the General Shareholders Meeting, with the majorities foreseen in Articles 194 and 201 LSC, in force at the time the General Meeting was held.

Pursuant to Article 14 of the Corporate By-laws, in order for the Ordinary or Extraordinary Ordinary General Shareholders Meeting to be duly constituted and validly adopt resolutions for capital increases or reductions or any other amendment of the Corporate By-laws, shareholders representing at least 50% of subscribed voting capital stock must be present or represented by proxy on first call, whilst 25% of subscribed voting stock must be present or represented by proxy on second call.

In addition, pursuant to Article 286 of the LSC, the Board of Directors must prepare a full text and justification for the proposed modification.

Article 287 of the LSC further establishes that the call notice for the General Shareholders Meeting must clearly set out the items to be modified and the right of all shareholders to examine the full text of the proposed modification and its relating report at the company's registered offices, or to request delivery of such documents at no charge.

For several years, proposed resolutions have been published in full, in Spanish and in English, upon call of the General Shareholders Meeting, with all relevant information for shareholders being posted on the Company website, which is designed to make it easier for shareholders to exercise their right to information. The company's website is an adequate tool for communicating with shareholders and investors.

The following actions to facilitate the rights of shareholders to information at the General Shareholders Meeting are also noteworthy:

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the General Shareholders Meeting, particularly the financial statements and the Annual Corporate Governance Report, is made available to all shareholders at the corporate headquarters, on the website and at the Shareholder’s Information Office.

- An entire section of the agenda of the General Shareholders Meeting is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.
- The annual reports on the activities of the Auditing Committee and of the Corporate Responsibility and Governance Committee are made available to all shareholders in the Annual Corporate Governance Report.
- A Shareholder Bulletin is published quarterly, containing the main news about the Company.
- The Chairwoman of the Auditing Committee is available to all shareholders during General Shareholders Meetings to deal with any matters falling within his jurisdiction as may arise, reporting these at the Meeting.
- At the last Ordinary General Shareholders Meeting, the chairpersons of both Board Committees participated for the first time, summarizing the activities conducted by the Committees in 2013.
- The items included on the agenda for the General Shareholders Meeting are as detailed as possible.
- Separate voting on each item is permitted, including via remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each item submitted to vote.
- The Shareholder's Information Office specifically deals with requests made by shareholders. Shareholders may submit questions in writing regarding the information available to the public or notified to the competent authorities and make inquiries through the Shareholder Information Office.
- In 2013 and 2014, Deloitte conducted an audit on the management processes of the Ordinary General Shareholders Meeting, towards improving the guarantees of shareholder rights at the Meeting. The auditor's reports were published on the website as soon as the General Meetings were respectively held.

**B.4 Indicate the attendance figures for the General Shareholders Meetings held during the year to which this Report refers and the previous year:**

Date of general meeting	Attendance Data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other	
18.04.2013	22.12	35.43	0.1	0.00	57.65%
09/05/2014	20.26	35.83	0.06	0.00	56.15%

**B.5 Indicate whether the By-laws impose any minimum requirement on the number of shares required to attend the General Shareholders Meetings:**

Yes

No

**B.6 Indicate whether decisions involving a fundamental corporate change (“subsidiarisation”, acquisitions/disposals of key operating assets, operations that effectively entail the company’s liquidation) must be submitted to the General Shareholders Meeting for approval or ratification even when not expressly required under company law.**

Yes

No

**B.7 Indicate the address and mode of accessing corporate governance content on your company’s website as well as other information on General Meetings which must be made available to shareholders on the website.**

Article 2 of the Regulations of the General Shareholders Meeting establishes the content of the Company website, the purpose of which is to serve as an instrument to ensure transparency in the way the Company conducts itself and, at the same time, to allow shareholders to exercise their rights more effectively, as well as make their dealings with the Company easier. The Company has been using this form of communication since it was listed on the stock markets in 1999. The content of the website is updated regularly and exceeds the requirements of applicable legislation.

Under Act 25/2011, of 1 August, more prominence is given to company websites, since it introduces a new Article 11 bis to the Capital Companies Act regulating the on-line site or corporate website. Said article established a duty for capital companies to have a website, approved by the General Shareholders Meeting and recorded at the Commercial Registry, which is why the Ordinary General Shareholders Meeting held on 19 April 2012 ratified RED ELÉCTRICA’s website, which has been recorded at the Commercial Registry. The Act also incorporates an obligation under Article 516 of the Capital Companies Act for listed companies to use the website to disseminate the call notice for the General Shareholders Meeting, something which Red Eléctrica Corporación, S.A. has been doing for a number of years.

The Company’s website ([www.ree.es](http://www.ree.es)), which was remodelled in 2013, includes a "Corporate Governance" section, accessible from the home page. This section includes full information on this subject of interest to shareholders. Our website also features a specific area for “Shareholders and investors”, which is likewise accessible from our home page. Regarding the publicity of resolutions adopted by the General Meeting, Article 17 of the Regulations of the General Meeting states that, without prejudice to registering at the Commercial Registry all registrable resolutions and any legal provisions regarding the publicity of corporate resolutions that may apply, on the same day the Meeting is held or on the business day immediately thereafter, the Company will forward the text of the approved resolutions to the CNMV, notified as a relevant event. The text of the resolutions will also be accessible through the Company’s website, once the CNMV has been informed. The Company is firmly committed to continue improving and constantly adapting its corporate website, as a living instrument for communication, dialogue and commitment with shareholders and investors pursuant to Order ECO/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June. Consequently, in 2013 the Company’s website

was thoroughly adapted, in terms of structure and contents, and a specific section is created, accessible from the home page, offering full information on the Company's Corporate Governance, following an exhaustive international benchmarking, in order to improve shareholder communication channels, enabling a fluent dialogue and better understanding of how Red Eléctrica's governance bodies work. During 2014, the Company has continued to expand and update the contents of its website as a shareholders communication instruments. These actions include the following:

- The live and simultaneous broadcast, in Spanish and English, of the Annual Shareholders' Meeting held on 9 May 2014.
- The live and simultaneous broadcast, in Spanish and English, of the presentation of 2013 year-end results and the updated 2013-2017 Strategic Plan of the Company.
- For the first time, the live and simultaneous broadcast, in Spanish and English, of the results of 1H2014.
- The publication in English of the call notice, as from the date of its publication in Spanish, and proposed resolutions submitted for approval to the General Shareholders Meeting, as well as all related documentation, including the Annual Corporate Governance Report.

The Shareholder's Electronic Forum was again available to shareholders in 2014. This Forum is created by Red Eléctrica Corporación, S.A. on its website, [www.ree.es](http://www.ree.es), on the occasion of holding its General Shareholders Meetings. It meets the need established in the final paragraph of Article 117.2 of Securities Market Act 24/1988, of 28 July 1988, introduced by Act 12/2010 of 30 June 2010, and in Article 539.2 of the Revised Capital Companies Act (LSC) approved by Legislative Royal Decree 1/2010, of 2 July.

This tool was incorporated into Article 8.4 of the Regulations of the General Shareholders Meeting, following its approval by the General Shareholders Meeting held on 13 April 2011.

The purpose of the Forum is to facilitate communication among the shareholders of Red Eléctrica with a view to publishing proposals to supplement the agenda contained in the call notice, issuing requests for adhesion to such proposals, presenting initiatives in order to reach the percentage to exercise the minority right envisaged in the law or making offers or requests for voluntary representation. The Forum set up in 2014 was not used by the Company's shareholders.

## **C COMPANY MANAGEMENT STRUCTURE**

### **C.1 Board of Directors**

- C.1.1 List the maximum and minimum number of directors included in the By-laws:

<b>Maximum number of directors</b>	13
<b>Minimum number of directors</b>	9

C.1.2 Complete the following table with Board members' details:

<b>Name or corporate name of director</b>	<b>Representative</b>	<b>Position on the Board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
JOSÉ FOLGADO BLANCO		Chairman, CEO	22.05.08	19.04.12	Resolution of General Shareholders Meeting
MARÍA ANGELES AMADOR MILLÁN		Director	26.05.05	18.04.13	Resolution of General Shareholders Meeting
FRANCISCO RUIZ JIMÉNEZ		Director	19.04.12	19.04.12	Resolution of General Shareholders Meeting
FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS		Director	19.04.12	19.04.12	Resolution of General Shareholders Meeting
PALOMA SENDÍN DE CÁCERES		Director	19.04.12	19.04.12	Resolution of General Shareholders Meeting
CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE		Director	19.04.12	19.04.12	Resolution of General Shareholders Meeting
MARÍA JOSÉ GARCÍA BEATO		Director	29.11.12	18.04.13	Resolution of General Shareholders Meeting
SOCORRO FERNÁNDEZ LARREA		Director	09.05.2014	09.05.2014	Resolution of General Shareholders Meeting
ANTONIO GÓMEZ CIRIA		Director	09.05.2014	09.05.2014	Resolution of General Shareholders Meeting
SANTIAGO LANZUELA MARINA		Director	29.07.2014	29.07.2014	Co-optation

<b>Total number of Directors</b>	10
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Indicate any Board members who left during this period:

<b>Name or corporate name of director</b>	<b>Status of the director at the time</b>	<b>Leaving date</b>
ALFREDO PARRA GARCÍA-MOLINER	Proprietary-	28.01.2014
RUI MANUEL JANES CARTAXO	Independent	09.05.2014
MIGUEL BOYER SALVADOR	Independent	09.05.2014
JUAN EMILIO IRANZO MARTÍN	Independent	28.10.2014

JOSÉ ÁNGEL PARTEARROYO MARTÍN	Proprietary	29.07.2014
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**C.1.3 Complete the following tables on board members and their respective categories:**

**EXECUTIVE DIRECTORS**

Name or corporate name of director	Committee proposing appointment	Position held in the company
José Folgado Blanco	Appointments and Remuneration Committee	Chairman

<b>Total number of Executive Directors</b>	<b>1</b>
<b>% of the board</b>	<b>10.00%</b>

**EXTERNAL PROPRIETARY DIRECTORS**

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
Francisco Ruiz Jiménez	Corporate Responsibility and Governance Committee	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
Fernando Fernández Méndez de Andés	Corporate Responsibility and Governance Committee	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
Santiago Lanzuela Marina	Corporate Responsibility and Governance Committee	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)

<b>Total number of proprietary directors</b>	<b>3</b>
<b>% of the board</b>	<b>30.00%</b>

**INDEPENDENT EXTERNAL DIRECTORS**

**Name or corporate name of director:**

CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE

**Profile:**

Born 20 May 1968.

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

Masters 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 Masters Courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club)

**Name or corporate name of director:**

MARÍA ANGELES AMADOR MILLÁN

**Profile:**

Born 10 October, 1949.

Law Degree, Universidad Complutense de Madrid

Currently:

Practising lawyer.

Formerly:

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

**Name or corporate name of director:**

PALOMA SENDÍN DE CÁCERES

**Profile:**

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.

President of the National Mining Safety Commission.

Director General of the Institute for Restructuring of the Coal 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.

**Name or corporate name of director:**

ANTONIO GÓMEZ CIRIA

**Profile:**

Born 25 March 1957.

Degree in Economics and Business Studies, Universidad Complutense de Madrid

Degree in Mathematics, Universidad Complutense de Madrid.

Masters in Business Administration & Management (Executive MBA), IESE.

Currently:

Member of the Advisory Board of Experts in Accounting and Financial Information (ECIF), General Council of the Association of Economists.

Formerly

General Manager of Administration and IT, Member of the Management Committee of Grupo FCC (2009-2014).  
Representative of Grupo FCC at the Forum of Large Companies, Ministry of Finance and Public Administrations (2009-2014).  
General Manager of Internal Auditing, Member of the Management Committee of Grupo FCC (2006-2009).  
Head of Internal Auditing, Grupo FCC (2005-2006).  
Member of the Advisory Council, Institute of Internal Auditors (2011-2013) and Member of the Executive Committee (2006-2009).  
General Technical Secretary of InverCaixa, investments management company of Grupo La Caixa (2000-2005).  
Chairman of Instituto de Contabilidad y Auditoría de Cuentas, ICAC (1996-2000).  
Director, Empresa Nacional de Uranio, S.A. (1996-2000).  
Director, Empresa Nacional de Autopistas, S.A. (1998-2000).  
Director, Tabacalera, S.A. (1996-1998).  
Head of Market Inspection, Sociedad Rectora de la Bolsa de Valores de Madrid (1989-1996).  
Deputy Manager for Studies and Budgetary Planning, Radio Televisión Española (1987-1989).  
Head of the Auditing and Accounting Department, Banco de Crédito Agrícola (1984-1987).  
Auditor/Inspector, General State Inspectorate (1981-1984).

Other:

Member of the CNMV Work Group to prepare a “Management report guide for listed entities” (2012-2013).  
Rewarded with a merits distinction, further to Ministerial Order of 3 November 2000, for his dedication and outstanding professional conduct, granted by the First Vice President of the Government for Economic Affairs and Minister of Economy.

### **Name or corporate name of director:**

SOCORRO FERNÁNDEZ LARREA

#### **Profile:**

Born 7 April 1965.

Civil Engineer, Universidad Politécnica de Madrid.

Currently:

CEO of the consultancy firm JustNow, S.L., providing advise in the infrastructure construction sector, both in commercial and financial operations.  
Member of the Board of Directors of AMPER, S.A. (proprietary director), on behalf of Emilanteos, S.L.  
Member of the Board of Director of SEG, S.A., involved in executing engineering work in civil and construction projects.  
Member of the Management Board of Asociación Española de Directivos and President of its Internationalization Committee.  
Member of the Board of Directors, ACR (construction company).

Formerly

General Manager, COPISA Constructora Pirenaica S.A. (2007-2013).  
Vice President, ANCI, Asociación de Constructores Independientes (2008-2013).  
Member of the Governing Council, Association of Civil Engineers (2004-2012).  
General Deputy Manager, COPISA, Constructora Pirenaica S.A. (2006-2007).

Regional Manager, Seop, Obras y Proyectos, S.A. (2005-2006).  
 National Representative, Ferroviaria Conservación, S.A. (2002-2005).  
 Representative in Castilla-La Mancha, Ferroviaria-Agroman, S.A. (1999-2002).  
 Representative in Castilla-La Mancha, Agroman Empresa Constructora, S.A. (1995-1999).  
 General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works, Autonomous Community Board of Castilla-La Mancha (1993-1995).  
 Works manager, Ferroviaria, S.A., in Castilla-La Mancha (1992-1993).

Other:

Member of IWF, International Women Forum, and member of the Management Board (chapter on Spain).  
 Member of the Business Council for Latin America, member of the Management Board (chapter on the Iberian Peninsula).

<b>Total number of Independent Directors</b>	<b>6</b>
<b>% of the board</b>	<b>60.00%</b>

**List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.**

Yes  No

If applicable, include a statement from the board detailing the reasons why the said director may carry out his duties as an independent director.

**OTHER EXTERNAL DIRECTORS**

List the reasons why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

List any changes in the category of each director which have occurred during the year:

**C.1.4 Complete the following table on the number of female directors over the past four years and their category:**

	Number of female directors				% of total directors of each type			
	2014	2013	2012	2011	2014	2013	2012	2011
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	1	0.00%	0.00%	0.00%	9.10%
<b>Independent</b>	5	4	4	2	50.00%	36.36%	36.36%	18.20%
<b>Other external</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%

<b>Total:</b>	5	4	4	3	50.00%	36.36%	36.36%	27.30%
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**C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.**

Explanation of measures
<p>In line with Recommendation 15 of the UCGB and recent international developments, Red Eléctrica has been appointing women with suitable profiles as directors on its Board of Directors.</p> <p>At the Ordinary General Shareholders Meeting held on 22 May 2008, three female directors joined the Board of Directors of Red Eléctrica Corporación S.A. In 2009 and 2010, Red Eléctrica Corporación, S.A. was in first place in the IBEX 35 for the highest percentage of female members of the Board of Directors (27.3%); this percentage has been maintained. A further independent female director joined the Board in 2012. At the end of 2013, four (36.4%) of its members, representing 40% of the Company's external directors, were women. This placed the Company again in first place on the IBEX 35.</p> <p>In 2014, the Board of Directors has taken one more step to fulfil the best recommendations in gender diversity matters. Thus, the Ordinary General Shareholders Meeting held on 9 May 2014 approved the appointment of a women as a new independent director to replace another independent director. As a result, at present, at the date of approval of this Report, of the 11 members of the Board of Directors, 5 are women, meaning that 45.45% of the entire Board are women (as opposed to 36.4% at the end of 2013). With respect to external directors, the percentage of women is currently 50%, as opposed to 40% at the end of 2013.</p> <p>As a result, Red Eléctrica has exceeded the minimum threshold established by the Draft European Union Directive for 2020 (40% of external directors), and now leads IBEX 35 companies in the matter.</p> <p>As part of its ongoing commitment to adopt corporate governance best practices, the Board of Directors assumed the obligation of approving an annual report on gender diversity matters at the proposal of the Corporate Responsibility and Governance Committee. The first edition of the report was approved at the end of 2008. This commitment has been maintained ever since.</p> <p>At its meeting on 28 October 2014, the Board of Directors, as part of its on-going commitment to the adoption of best corporate governance practices, approved the Report on Gender Diversity and Equality Policy submitted to it by the Corporate Responsibility and Governance Committee. For the second consecutive year, a single report has been prepared grouping information on gender diversity on the Board with information on gender diversity in the Red Eléctrica Group, thereby producing a single report with all</p>

information on the matter. This Report has been published on the Company's website once again.

The commitment of the Board of Directors of Red Eléctrica to strengthening the presence of women is an objective of good corporate governance policies, both on the Board of Directors and in company management and the rest of the organization of the main companies of the Red Eléctrica Group. Its pursuit must be ongoing in order to consolidate a responsible corporate management model based, among other aspects, on active management of the principles of equality and non-discrimination. The objective is for women to play a commensurate role in the Company's decision making through a larger presence on its Board of Directors and its committees.

As regards the Board Committees, please note that in late 2014 the Company's Board of Directors, further to a proposal from the chairman of the Board of Directors and a prior opinion from the Governance and Corporate Responsibility Committee, has agreed to increase the number of members in each Board Committee: the Auditing Committee and Governance and Corporate Responsibility Committee, from three (3) members to four (4). Following this increase on the Governance and Corporate Responsibility Committee, 3 of its 4 members are women, representing 75% of its members, and on the Auditing Committee 2 of its 4 members are women (50% of its members).

Both the Auditing Committee and Governance and Corporate Responsibility Committee are chaired by a woman.

In 2013, the Board of Directors agreed to create the role of Lead Independent Director (LID). This was approved by the General Shareholders Meeting at its 18 April 2013 meeting. The aim of this measure is to reinforce the balance of powers on the Board of Directors, where the Chief Executive Officer and the Chairman of the Board are the same person. On 25 May 2013, Ms Gómez de Barreda was named Lead Independent Director by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee.

**C.1.6 Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile:**

<i>Explanation of measures</i>
<p>As stated in the previous section, the measures put in place by the Company are aimed at actively promoting the selection of female Directors and their incorporation into the Board of Directors, on the terms provided in Recommendation 15 of the UCGG and in accordance with Article 16.1 of the Regulations of the Board of Directors. This is the responsibility of the Corporate Responsibility and Governance Committee.</p> <p>The Board of Directors has taken on board best practice recommendations on gender diversity. At the end of 2014, five (45.45%) of its members, representing 50% of the Company's external directors, were women. This puts the Company at the cutting edge of the IBEX 35.</p> <p>On 25 May 2013, Ms. Gómez de Barreda was named Lead Independent Director by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee.</p> <p>With regard to the Committees of the Board of Directors, as previously mentioned, throughout 2014 the Auditing Committee was chaired by a woman and, after increasing the number of members, 50% are women. The Corporate Responsibility and Governance Committee is the one that has reinforced female presence the most over the 2014 financial year, given that from its one (1) female member in 2013 it now has three (3) women at the end of 2014 (75% of its members), and is now chaired by a woman.</p> <p>To conclude, all proposed appointments of female directors and the incorporation of female directors as Board Committee members, either proposed or reported by the Governance and Corporate Responsibility Committee, have been approved by the Board, entailing a greater presence of women on the Board of Directors and Committees, as well as in the management bodies of the Company.</p>

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of reasons
Not applicable

**C.1.7 Explain how shareholders with significant holdings are represented on the board.**

Pursuant to Article 20 of the Corporate By-laws, the selection of directors takes into consideration the Company's capital structure. The objective is for external directors (independent and proprietary) to form a significant majority. The composition of the Board is

determined so as to ensure the most appropriate representation of share capital.

Pursuant to Article 7 of the Regulations of the Board of Directors, directors with a holding equal to or higher than legally significant thresholds, or who represent shareholders with such significant holdings, are considered proprietary directors. For these purposes, a director shall be considered to represent a shareholder, when:

- i) They have been appointed in exercise of the right of representation.
- ii) They are directors, senior managers, employees or regular suppliers of services to such a shareholder, or of companies belonging to the same group.
- iii) Company documentation shows that the shareholder considers that they nominated or are represented by the director.
- iv) Are spouses, persons connected by a similar relationship of affection, or relatives to the second degree of a significant shareholder.
- v) Proprietary directors may not hold positions in more than five (5) listed companies at any one time.

The composition of the Board of Directors is governed by the criteria of proportionality. Article 7 of the Regulations of the Board of Directors establishes that a balance will be sought between the number of proprietary and independent directors to reflect the share of capital represented by proprietary directors and the remaining capital.

Furthermore, efforts will be made to ensure that the number of independent directors represents at least half of all directors, and when the chairman of the Board is also the chief executive, independent directors must form a majority of total directors. These provisions were incorporated into the Regulations of the Board of Directors in March 2013, so as to reflect international corporate governance best practice.

Pursuant to the role set out in Article 24.2 of the Corporate By-laws, the competences of the Corporate Responsibility and Governance Committee include reporting to the Board of Directors on the selection and reappointment of proprietary directors proposed by the majority shareholder, for presentation to the General Shareholders Meeting.

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. Furthermore, Article 22.2

of the Regulations of the Board of Directors establishes that proprietary directors must tender their resignation when the shareholder they represent on the Board disposes of its holding in the Company, or reduces it below a level that reasonably justifies their designation as such.

The modifications to the Regulations of the Board of Directors approved in March 2013 set out that proprietary directors may not hold directorships in more than five (5) listed companies at any one time.

At 31 December 2014, the State-owned Industrial Holdings Company (Sociedad Estatal de Participaciones Industriales or "SEPI") directly owned a significant stake in Red Eléctrica, holding 27,054,000 shares, representing 20% of its share capital. Three proprietary Directors represent SEPI on the Board of Directors- Francisco Ruiz Jiménez, Fernando Fernández Méndez de Andés and Santiago Lanzuela Marina- representing 30% of the total number of directors, without including the independent director vacancy.

Irrespective of this, there are no individuals or legal entities that exercise or may exercise control over the Company, pursuant to Article 4 of the Securities Market Act.

**C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 5% of the share capital:**

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

Yes

No

**C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:**

**Director's name**

ALFREDO PARRA GARCÍA-MOLINER

**Reasons for removal:**

Termination of the employment relationship held with the shareholder company (SEPI), which he represented on the Board.

**Director's name**

JUAN EMILIO IRANZO MARTÍN

**Reasons for removal:**

To avoid harming the Company's reputation for events involving the director outside the Company.

**Director's name**

MIGUEL BOYER SALVADOR

**Reasons for removal:**

Expiration of the term of his appointment.

**Director's name**

RUI MANUEL JANES CARTAXO

**Reasons for removal:**

Expiration of the term of his appointment.

**Director's name**

JOSÉ ÁNGEL PARTEARROYO MARTÍN

**Reasons for removal:**

Further to a proposal made by the shareholder (SEPI) that he represented on the Board of Directors.

**C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):**

**Name or corporate name of director**

JOSÉ FOLGADO BLANCO

**Brief description**

At its meeting on 26 April 2012, the Company's Board of Directors unanimously agreed:

*“To delegate to the Chairman of the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A., Mr. José Folgado Blanco, pursuant to the provisions of Article 249 of the current Capital Companies Act, Article 149 of the Mercantile Registry Regulations, Article 22 of the Corporate By-laws and Article 5 of the Regulations of the Board of Directors, all powers of the Board of Directors that may be delegated by law and pursuant to the By-laws.”*

**C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company’s group:**

Name or corporate name of director	Corporate name of the group entity	Position
José Folgado Blanco	Red Eléctrica Internacional, S.A.U.	Joint Director
José Folgado Blanco	Red Eléctrica del Sur, S.A. (REDESUR)	Chairman of the Board of Directors
José Folgado Blanco	Red Eléctrica España S.A.U.	Individual representative of the Sole Administrator, Red Eléctrica Corporación S.A

**C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:**

Name or corporate name of director	Name of listed company	Position
Fernando Fernández Méndez de Andés	Bankia, S.A.	Director
Socorro Fernández Larrea	Amper S.A.	Director

**C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:**

Yes

No

Explanation of rules
As part of the basic duties of the Corporate Responsibility and Governance Committee in respect of the appointment and removal of directors, Article 16.1 i) of the Regulations of the Board of Directors provides for the evaluation of the time and dedication necessary for directors to perform their work with due quality and efficiency, evaluating for these purposes whether their position as a director is compatible with membership of other managing bodies of companies.

In this regard, the Corporate Responsibility and Governance Committee has the power to analyse and propose to the Board authorisation, as the case may be, for members of the Board of Directors of Red Eléctrica to join the boards of directors of other companies.

Article 7.3 of the Regulations of the Board of Directors limits the maximum number of boards of other listed companies on which an Independent Director may sit to two (2), except when otherwise expressly approved by the Board at the proposal of the Corporate Responsibility and Governance Committee.

In turn, according to said article of the Regulations:

- Proprietary directors may not hold positions in more than five (5) listed companies at any one time.

- The Chairman of the Board of Directors and the executive directors may only hold positions as directors on one (1) board of directors of another company, with the exception of boards of directors of the Company's subsidiaries and investees.

**C.1.14 Indicate the company's general policies and strategies that are reserved for approval by the Board of Directors in plenary session:**

	Yes	No
<b>Investment and financing policy</b>	X	
<b>Definition of the structure of the corporate group</b>	X	
<b>Corporate governance policy</b>	X	
<b>Corporate social responsibility policy</b>	X	
<b>Strategic or business plan, management targets and annual budgets</b>	X	
<b>Remuneration and evaluation of senior officers</b>	X	
<b>Risk control and management, and the periodic monitoring of internal information and control systems</b>	X	
<b>Dividend policy, as well as the policies and limits applying to treasury stock</b>	X	

**C.1.15 List the total remuneration paid to the Board of Directors in the year:**

<b>Board remuneration (thousands of euros)</b>	2,387
<b>Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)</b>	0
<b>Total board remuneration (thousands of euros)</b>	2,387

**C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:**

<b>Name or corporate name</b>	<b>Position(s)</b>
Andrés Seco García	Director General of Operation
Carlos Collantes Pérez-Ardá	Director General of Transmission

<b>Total remuneration received by senior management (thousands of euros)</b>	729
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**C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:**

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

**C.1.18 Indicate whether any changes have been made to the board regulations during the year:**

Yes

No

**C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.**

1. Appointment and reappointment

Article 19 of the Regulations of the Board of Directors provides that Directors will be appointed by the General Shareholders Meeting or by the Board of Directors by way of co-optation. The Corporate Responsibility and Governance Committee must report in advance on the proposed appointment of Directors, including by way of co-optation. Within the scope of its powers, the Board of Directors will aim to ensure that the candidates appointed are of good standing, competence and experience, applying the appointment and assessment policy for candidates approved by the Board, and using external advisors as deemed appropriate, and as provided for in Article 20 of the Regulations.

As provided for in Article 21 of the Regulations, Directors will hold office for the period stipulated in the Corporate By-laws.

Article 20 of the Corporate By-laws establishes a four-year term of office for Directors. Pursuant to Article 7 of the Regulations of the Board of Directors, Independent Directors may not remain as such for a continuous period of more than twelve years.

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

One of the Company's commitments is to periodically update the Succession Plan in order to reduce any risks that may arise from an unexpected and disorderly succession, as much as possible. A review of the Succession Plan is expected to begin soon,

## 2. Evaluation of Directors

Pursuant to Article 5 of the Regulations of the Board of Directors, the Board, its Committees, its Chairman and the Chief Executive of the Company will be assessed at least every two years by an independent external expert.

The Board of Directors has been carrying out an annual evaluation of its own operations, the operation of the Board Committees and of the Board Chairman with specialist external advice.

In particular, the Board of Directors has expressly reserved (Article 5 of the Regulations of the Board of Directors) the following direct responsibilities, which may not be delegated, including annual evaluation of:

- i) the quality and efficiency of the Board's functioning and the discharge by the Board Chairman and by the Company's chief executive of their functions, based on a report submitted by the Corporate Responsibility and Governance Committee in coordination, where applicable, 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 applicable, with the lead independent director.

The Board must periodically review the general aspects of the methodology used for the evaluation, its overall results and the corrective measures applied, if applicable.

The Corporate Responsibility and Governance Committee is responsible for the assessment process for the Board and its Committees and, in particular, the Chairman of the Board and the Chief Executive of the Company, in coordination, where applicable, with the lead independent director.

In the 2014 self-evaluation process, which is currently underway, we are being assisted by the independent firm PricewaterhouseCoopers (PwC).

### 3. Removal.

Article 22.1 of the Regulations of the Board of Directors provides that Directors will cease to hold office at the end of the term for which they were appointed or when so decided by the General Shareholders Meeting in exercise of the authority conferred upon it by law or the By-laws. The Board of Directors must not propose the removal of an Independent Director prior to the completion of the term of office specified in the By-laws for which the Director was appointed, unless there is just cause and subject to a report from the Corporate Responsibility and Governance Committee. In particular, just cause will be deemed to exist when a Director is in breach of the duties inherent to his/her position or is subject to any of the circumstances described in Article 7.2.c) of the Regulations of the Board of Directors, impeding their categorisation as independent. The removal of independent directors may also be proposed when a corporate transaction involves changes in the capital structure of the Company in order to meet the proportionality criterion set out in Article 7.1. c) of the Regulations of the Board of Directors.

Directors must tender their resignation to the Board of Directors and, if the Board deems it appropriate, formally resign in the cases contemplated in Article 22.2 of the Regulations of the Board of Directors and listed in section C.1.21 below.

Article 22.3 of the Regulations of the Board of Directors provides that Committee members will vacate their office when they cease as directors.

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

**C.1.20 Indicate whether the board has evaluated its performance during the year:**

Yes

No

**Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:**

Description of amendments
The final report on conclusions reached in the 2013 self-evaluation process was approved by the Board of Directors at its meeting of 29 July 2014.

The result of PwC's self-assessment process, based on interviews held with the directors, has disclosed that efficiency and adequate operation of the Company's Management Bodies have been the most solid features of its 2013 performance. A very positive valuation was achieved on the operation of the various Management Bodies. All directors agreed that 2013 has led to consolidated cohesion both in the Board of Directors and other bodies.

Furthermore, of interest is the positive valuation provided by most directors in relation to the formal features of these bodies, particularly as regards availability, rigorousness and preparation for meetings, and the quality of discussions.

A very high score was also obtained in performance of the tasks assigned to the various Management Bodies. The directors have pointed out the connection amongst the members of the Management Bodies and the Senior Management. Furthermore, the 2013 self-evaluation also evidenced that the Company is way ahead in corporate governance matters, having implemented practice that exceed the minimum legal requirements existing at the self-evaluation date. This practice is related to:

- Presentation of the Board of Directors' remuneration and the Annual Report on directors' remuneration to a binding vote, as separate points of the General Meeting Agenda.
- Evaluation of the Management Bodies by an independent expert.
- Creating the role of "Lead Independent Director".
- The level of gender diversity within the Board of Directors.
- The level of transparency of the Annual Corporate Governance Report.

Furthermore, as a result of the 2013 self-evaluation process, progress has been identified, carried out within the Board over the last year, which will continue to be reflected upon in 2014 and successive years, in order for the Company to continue working towards good governance, as follows:

- To continue examining alternative allowing a balance of power in the Board's composition, as a result of the posts of Chairman and Chief Executive being held by the same person, further to measures adopted in 2013 (appointment of Lead Independent Director, consolidated role of Board Committees, etc.).
- To continue working on a refreshment of directors' knowledge, particularly in topics related to corporate governance, risk management, the energy sector and international markets, allowing them to reinforce the Board's capacities.
- To continue strengthening the role of Lead Independent Director, given that companies are gradually acquiring more knowledge and experience about the relevance of this figure, and it is expected that matters related to corporate governance will continue to be a priority

for companies over the next few years.

During the 2014 self-evaluation process, which is currently underway, there will be a further evaluation of the Board and its Committees, to include the Chairman, Lead Independent Director and Secretary of the Board. As was the case in 2013, we are being assisted by an independent firm, PwC, and interviews are being held with the Company's directors. The process is still ongoing. For more details, see the Annual Corporate Governance Report that the Company has voluntarily drawn up and made available on the corporate website.

**C.1.21 Indicate the cases in which directors must resign.**

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

- a) When they reach 70 years of age.*
- b) When they are subject to any of the statutory grounds for incompatibility or prohibition.*
- c) When they are convicted of an offense or penalized in disciplinary proceedings for a serious or very serious infringement investigated by the supervisory authorities of the securities, energy and telecommunications markets.*
- d) When they are in serious breach of their obligations as Directors.*
- e) When they leave the executive posts with which their appointment as Director was associated.*
- f) When their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Section 38.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members.*

*If a Director is prosecuted or is brought to trial for any of the crimes mentioned in Article 213 of the Capital Companies Act, the Board shall examine his case as soon as possible and, in the light of the specific circumstances, shall decide pursuant to the preceding paragraph whether or not it is appropriate for him to remain in office. All of the foregoing shall be set forth in the Annual Corporate Governance Report.*

- g) In the case of a Proprietary Director, when the shareholder whose shareholding interests he represents on the Board*

*disposes of his shareholding in the Company or reduces it below the level which reasonably justified his appointment as such.*

*h) At the request of the Board of Directors by a majority of two-thirds of its members, when they repeatedly fail to attend the Board meetings.*

*i) When a circumstance prevents or limits them significantly from taking part in and devoting themselves to the Board meetings and discharging their duties and responsibilities as directors.”*

**C.1.22 Indicate whether the duties of chief executive officer fall upon the Chairman of the Board of Directors. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:**

Yes

No

Measures for limiting risk
<p>The Chairman of the Board of Directors of Red Eléctrica is also the Chairman of the Company, and currently is its Chief Executive, being responsible for ensuring implementation of the resolutions of the Board of Directors, which he permanently represents.</p> <p>Notwithstanding the above, further to Article 5.5 of the Board Regulations, published on the corporate website (<a href="http://www.ree.es">www.ree.es</a>), to which we refer, the Board of Directors has reserved the responsibilities and powers that it considers strategic and which cannot be delegated, which were expanded in 2013. The responsibilities that cannot be delegated cannot be carried out by the Chief Executive or the Board Committees.</p> <p>Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, has increased the number of powers that the Board of Directors may not delegate in any case (Articles 249 bis and 529 ter LSC), which is why Article 5 of the Board Regulations will soon be reviewed in order to conform to the new law.</p> <p>Furthermore, the chief executive is subject to specific checks on his responsibilities by the Board of Directors, which must provide its subsequent endorsement in relation to urgent decisions he had to adopt, or must previously provide its authorisation.</p> <p>The changes to the Regulations of the Board of Directors were:</p> <ul style="list-style-type: none"><li>- The possibility of creating a lead independent director and a procedure for the director's appointment and removal, and regulation of the director's areas of competence and responsibilities. This role was filled in May 2013.</li><li>- The introduction of specific measures for the personal separation of the posts of Chief Executive and Chairman of the Board of Directors.</li></ul>

- Express reservation for the Board of Directors of certain areas of competence and powers which, for urgent issues, were previously assigned to the Chairman of the Board of Directors.

- A provision to try to ensure that the number of independent directors represents at least half of all directors. And, when the Chairman of the Board is at the same time the Company's chief executive, independent directors must form a majority of total directors.

The General Shareholders Meeting held on 18 April 2013 modified the Corporate By-laws by introducing counterweight measures similar to those added to the Regulations of the Board of Directors for situations where the Chairman of the Board is at the same time the chief executive of the Company (regulation of the position of lead independent director) and other measures to ensure personal separation of the two roles.

In the light of the new corporate legal structure approved in 2013, it would be feasible for Red Eléctrica to not have the Chairman of the Board be the chief executive at the same time, and one or more chief executives other than the chairman may even be appointed. These issues will continue to be analysed by the Corporate Responsibility and Governance Committee and the Board of Directors.

To the foregoing it should be added that the Company's Board of Directors, at a meeting held on 23 December 2014, further to a proposal from the Chairman of the Board of Directors and subject to a prior opinion from the Governance and Corporate Responsibility Committee, has agreed to increase the number of members on each Board Committee- Auditing Committee and Governance and Corporate Responsibility Committee- from three (3) members to four (4). With this counterweight measure, the presence of independent directors is reinforced on Board Committees, given that each Committee has incorporated an independent director, and both consist of three (3) independent directors and one (1) proprietary director.

The Auditing and Governance and Corporate Responsibility Committees, totally consisting of external directors a with a majority and chairmanship held by independent directors, specializing in matters within their remit, have reinforced the specific control over basic and strategic responsibilities of the Board of Directors, which are in no event exclusively performed by the Chairman.

**Indicate, and if necessary, explain whether rules have been established that enable any of the independent directors to convene board meetings or include new items on the agenda, to coordinate and voice the concerns of external directors and oversee the evaluation by the Board of Directors**

Yes X

No \*\*

Explanation of rules
<p>New Article 9 bis of the Regulations of the Board of Directors introduced in March 2013 include among the responsibilities of the lead independent director coordinating and proposing to the Chairman and of the Board of Directors items to include on the agenda for the meeting and to call both ordinary and extraordinary meetings of the Board of Directors, for duly justified reasons that must be included along with the call, when the request has not been made by the Chairman of the Board of Directors.</p>
<p>Pursuant to Article 17 of the Regulations of the Board of Directors, the Board will meet whenever requested by the lead independent director or three directors, in which case they must state in the request the matters to be discussed at the meeting, in accordance with the By-laws and the Regulations.</p>
<p>Additionally, the directors who make up at least one-third of the Board members and, in the preceding case, the three requesting directors or the lead independent director, may convene the Board directly, stating the agenda of the meeting to be held in the location of the registered address if, after the request to the Chairman, the latter, without a justified reason, has not convened the meeting within one month.</p>
<p>Furthermore, pursuant to Article 25 bis of the Corporate By-laws and the aforementioned Article 9 bis of the Regulations of the Board of Directors, the lead independent director has the essential responsibility, which must be taken into account for carrying out the other functions described in the Regulations, of organizing 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.</p>
<p>With respect to the independent directors, pursuant to article 9 bis of the Regulations of the Board of Directors, the lead independent director may 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.</p>
<p>Moreover, management of the assessment process is expressly attributed to the Corporate Responsibility and Governance Committee, in coordination with the lead independent director (Articles 9 bis and 16 of the Regulations of the Board of Directors).</p>
<p>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 General Shareholders Meeting of 18 April 2013 proceeded to amend the Corporate By-laws in this regard. The Board Meeting held on 28 May</p>

2013 appointed Carmen Gómez de Barreda Tous de Monsalve as Lead Independent Director, for a period of three years.

**C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?**

Yes

No

If applicable, describe the differences.

**Description of differences**

Any resolution – Quorum - Half plus one of the Directors present in person or by proxy (Art. 18 of the Regulations)- Type of majority: Absolute

Modification of the Regulations of the Board of Directors, pursuant to Article 3.4 of the Regulations-Quorum: Idem- Type of Majority: Two thirds

Removal or retirement of a Director when their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Article 38.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members, in accordance with Article 22.2.f) of the Regulations. Quorum: Idem Type of majority: Two thirds

Cessation of the director at the request of the Board of Directors, in the event of repeated non-attendance at Board meetings. Request by two-thirds majority

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

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

Article 21 of the Corporate By-laws establishes that any Director may grant a proxy to another Director, in writing and specifically for each meeting, to attend and vote on his behalf at meetings of the Board of Directors, providing that the proxy is granted to a Director of the same type as the Director represented (Articles 28.2 b) and 18 of the Regulations of the Board of Directors). (New Article 529 quarter LSC only allows non-executive directors to empower another non-executive director).

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

Article 21 of the By-laws and Article 18 of the Regulations of the Board of Directors establish that resolutions will be adopted by absolute majority of the votes of the directors present at the meeting, in person or by proxy, unless the law requires that resolutions be adopted by a higher majority or in the aforesaid case of amendment of the Regulations of the Board of Directors, as specified in Article 3.4 thereof, and for retirement and removal as set forth in Article 22.

**C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.**

Yes  No

**C.1.25 Indicate whether the Chairman has the casting vote:**

Yes  No

Matters where the Chairman has the casting vote
In the event of a tied vote, the Chairman will have the casting vote and will decide upon the issue independently of the subject matter of the resolution being voted on (Article 21 of the Corporate By-laws and Article 18.3 of the Board Regulations).

**C.1.26 Indicate whether the By-laws or the board regulations set any age limit for directors:**

Yes  No

Age limit for Chairman:

Age limit for chief executive

Age limit for director 70

**C.1.27 Indicate whether the By-laws or the board regulations set a limited term of office for independent directors:**

Yes  No

**C.1.28 Indicate whether the By-laws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director**

**may hold. Also indicate whether only one director of the same category may be appointed as a proxy. If so, give brief details.**

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

Where a Director cannot, with just cause, attend the Board meeting(s) to which he has been called, he must give instructions to the Director that is to represent him, ensuring that he is represented by a Director of the same type, as provided in Article 28.2 b) and Article 18 of the Regulations of the Board of Directors.

Furthermore, the provisions established in new Art. 529 quarter LSC should apply for non-executive directors.

**C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.**

Number of Board meetings	13
Number of Board meetings held without the Chairman's attendance	0

Indicate the number of meetings of the various board committees held during the year:

Committee	No. of Meetings
Governance and Corporate Responsibility Committee	17
Auditing Committee	11

**C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.**

Directors' attendance	133
% of attendances of the total votes cast during the year	95.68%

**C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:**

Yes  No

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board:

**C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders Meeting with a qualified Audit Report.**

Article 45 of the Regulations of the Board of Directors expressly establishes that the Company's Board of Directors will formulate the definitive financial statements, ensuring that they do not give rise to any qualifications by the auditor. Nevertheless, where the Board considers that it must maintain its judgement, it will publicly explain the substance and scope of the discrepancy.

In this regard, the Auditing Committee plays a particularly important role, as it continuously monitors the process of preparing the economic and financial information sent to the market supervisory bodies, thereby increasing the likelihood that there will be no qualifications in the annual auditors' reports.

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

**C.1.33 Is the Secretary of the board also a director?**

Yes

No

**C.1.34 Explain the procedures for appointing and removing the Secretary of the board, indicating whether their appointment and removal have been notified by the Nomination Committee and approved by the board in plenary session.**

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

appointment as it did not exist at that time.

	Yes	No
Does the Appointments Committee propose appointments?	X	
Does the Appointments Committee advise on dismissals?	X	
Do appointments have to be approved by the board in plenary session?	X	
Do dismissals have to be approved by the board in plenary session?	X	

**Is the Secretary of the board entrusted in particular with the function of overseeing corporate governance recommendations?**

Yes X

No

Remarks
<p>Pursuant to Article 26 e) of the By-laws and Article 10.3 b) of the Regulations of the Board of Directors, the duties of the Secretary of the Board of Directors include ensuring compliance by the Board of Directors and its Committees with the Corporate By-laws, the Regulations of the General Shareholders Meeting, the Regulations of the Board of Directors, and other corporate governance rules at the Company.</p> <p>In addition, Article 26 f) of the Corporate By-laws and the corresponding Article 10.3 c) of the Regulations of the Board of Directors provide that the Secretary of the Board of Directors is responsible for “ensuring that the Company's corporate governance rules and the actions of the Board of Directors are in line with the good corporate governance recommendations in force from time to time”.</p>

**C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the external auditor, financial analysts, investment banks and rating agencies.**

The approval of the policy to hire non-auditing services from an external auditor is reserved on a non-delegable basis to the Board of Directors further to its internal Regulations (Art. 5.5.a.xii)).

In 2012, at its Ordinary Shareholders Meeting of 19 April 2012, the Company adapted its Corporate By-laws to bring them into line with the aforementioned Act 12/2010, which aims to reinforce the competencies of the Auditing Committee to verify the independence of the external auditor. This modification is set down in Article 14.3 of the Regulations of the Board of Directors, which was approved by the Board of Directors at its meeting on 13 March 2013.

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

Pursuant to the power set out in Article 23.2 of the Corporate By-laws, Article 14.3 b) of the Regulations of the Board of Directors, in relation to the independence of external auditors, tasks the Auditing Committee with establishing relations with the external auditors so as to obtain for examination information regarding matters that might jeopardize their independence or any other issue related to performance of the auditing process, and any other notifications as required under audit legislation and regulations. In any case, the Committee must receive each year from the auditors written confirmation of their independence from the Company or from entities related to the Company directly or indirectly, as well as information on additional services of any kind provided to such entities by those auditors or by persons or entities related to those auditors in accordance with the provisions of legislation in force.

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

Finally, the modification to the Regulations of the Board of Directors in March 2013 introduced a requirement for the Committee to issue a report each year expressing an opinion on the independence of the auditors, before issue of the auditors' report.

Article 45 of the Regulations of the Board of Directors imposes a duty on the Board to refrain from engaging auditing firms whose envisaged fees for all items exceed 10% of their total revenues in the preceding year.

In addition, Article 45 also imposes a duty on the Board of Directors to provide yearly information on the overall fees paid by the Company to the auditing firm for non-auditing services, seeking to minimise contracting of such services as far as possible.

Without prejudice to the obligation set out in Article 45 for the Auditing Committee to report on services provided to the Company and the Group by the external auditors other than those related to the



Amount of non-auditing work as a % of the total amount billed by the auditing firm	0.00%	21.00%	21.00%
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**C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Auditing Committee to explain the content and scope of those reservations or qualifications.**

Yes

No

**C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:**

	Company	Group
Number of consecutive years	2	2
Number of years audited by current auditing firm/Number of years the company's financial statements have been audited (%)	3.90%	14.30%

**C.1.40 Indicate and give details of any procedures through which directors may receive external advice:**

Yes

No

Procedures
<p>There is a specific procedure in place at the Company to allow Directors to seek external advice.</p> <p>In order to receive assistance in exercising their functions, Article 26 of the Regulations of the Board of Directors establishes that External Directors may request that the Board of Directors engage legal, accounting, financial or other expert advisers, at the expense of the Company.</p> <p>The engagement must refer to specific problems of a certain scale and complexity arising in the discharge of their office.</p> <p>The engagement request must be addressed to the Chairman. The request may be rejected by the Board of Directors if it transpires or can be inferred that:</p> <p>a) it is not necessary for the proper performance of the functions entrusted to the Directors;</p>

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

Articles 13.5 and 15.6 of the Regulations of the Board of Directors provide that the Auditing Committee and the Corporate Responsibility and Governance Committee may propose that the Board of Directors seek independent professional advice.

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

**C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:**

Yes

No

<b>Procedures</b>
<p>Board meetings are called at least six (6) days in advance and all relevant information is sent out with the call notice. The call notice always includes the agenda for the meeting and, in general, except where it is not possible, the relevant information, duly summarized and prepared.</p> <p>Notwithstanding the foregoing, Article 17.5 of the Regulations of the Board of Directors establishes that the call notice for Board meetings will be sent at least three (3) days prior to the date of the meeting. As an exception and for reasons of urgency, the Board may be called by telephone and the advance notice period will not apply where the Chairman deems that the circumstances justify it. The reasons for the urgency are then set out in the minutes, pursuant to Article 17.6 of the Regulations of the Board of Directors.</p> <p>Article 25.1 of the Regulations of the Board of Directors provides that Directors have the broadest rights to be informed of and to inspect any aspect of the Company. In this regard, Directors may, at any time, examine the books, registers, documents and other background information on corporate transactions and may even inspect all Company facilities. The right to information extends to subsidiary companies, both domestic and foreign.</p> <p>In accordance with Article 25.2 of the Regulations of the Board of Directors and so as not to disturb the ordinary management of the Company, the exercise of the right to information will be channelled through the Chairman of the Board of Directors, who will handle all requests from Directors, providing the information directly to them. The Chairman will also offer the appropriate contact persons at the</p>

relevant level within the organization or make arrangements to allow Directors to conduct the desired examination and inspection *in situ*.

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

Both the Auditing Committee and the Corporate Responsibility and Governance Committee may access any kind of Company information or documentation that they may need for the better performance of their duties, as indicated in section C.1.40 above.

**C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:**

Yes

No

**Details of rules**

Article 38 of the Regulations of the Board of Directors provides, among the disclosure obligations of Directors, that Directors must inform the Company of all judicial, administrative and other claims that by reason of their significance could harm the credit and reputation of the Company and, in particular, of any criminal proceedings in which they appear as an accused party, and of subsequent progress in the case.

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

If a Director is prosecuted or a decision is rendered to bring him to trial for any of the crimes referred to in Article 213 of the Capital Companies Act, the Board shall review the matter as soon as possible and, in light of the specific circumstances, shall decide, as provided for in the preceding paragraph, whether or not it is appropriate for the Director to remain in office.

**C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in Article 213 of the LSC:**

Yes

No

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

**C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.**

The Company has not entered into any agreements that come into force, are changed or terminate in the event of a change in control of the Company as a result of a takeover bid for the shares.

**C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.**

Number of beneficiaries	3
Type of beneficiary	Description of the resolution
CEO and top executives	The contract of the current Executive Director was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's Board of Directors. In accordance with common market practices, this contract includes indemnification equal to one year's compensation in the event of termination of the mercantile relationship through dismissal or change of control.
Top executives	There are safeguard or golden parachute clauses for members of the Company's current senior management. These clauses are in line with standard market practices and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless the applicable legislation provides for a higher amount. The contracts containing these clauses were approved by

	the Governance and Corporate Responsibility Committee and they were duly notified to the Board of Directors of the parent company.
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Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

	<b>Board of Directors</b>	<b>General Shareholders Meeting</b>
<b>Body authorizing clauses</b>	<b>Yes</b>	<b>No</b>

	<b>YES</b>	<b>NO</b>
Is the General Shareholders Meeting informed of such clauses?	X	

## C.2 Board committees

### C.2.1 Give details of all the board committees, their members and the proportion of proprietary and independent directors:

#### GOVERNANCE AND CORPORATE RESPONSIBILITY COMMITTEE

Name	Position	Type
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE-	CHAIRWOMAN	Independent
MR. FRANCISCO RUIZ JIMÉNEZ	MEMBER	Proprietary
MS. MARÍA JOSÉ GARCÍA BEATO	MEMBER	Independent
MS. SOCORRO FERNÁNDEZ LARREA	MEMBER	Independent

% of executive directors	0.00%
% of proprietary directors	25.00%
% of independent directors	75.00%
% of other external directors	0.00%

#### AUDITING COMMITTEE

Name	Position	Type
PALOMA SENDÍN DE CÁCERES	Chairwoman	Independent
MARIA ÁNGELES AMADOR MILLÁN	Member	Independent
FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	Member	Proprietary
ANTONIO GÓMEZ CIRIA	Member	Independent

% of executive directors	0.00%
% of proprietary directors	25.00%
% of independent directors	75.00%
% of other external directors	0.00%

**C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:**

	Number of female directors							
	2014		2013		2012		2011	
	Number	%	Number	%	Number	%	Number	%
<b>GOVERNANCE AND CORPORATE RESPONSIBILITY COMMITTEE</b>	3	75.00%	1	33.33%	1	33.33%	1	25.00%
<b>AUDITING COMMITTEE</b>	2	50.00%	2	66.66%	2	66.66%	2	66.66%

**C.2.3 Indicate whether the Auditing Committee is responsible for the following:**

	Yes	No
Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles	X	
Reviewing internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed	X	
Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verifying that senior management are acting on the findings and recommendations of its reports	X	
Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	X	
Making recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of their engagement	X	
Receiving regular information from the external auditor on the progress	X	

	Yes	No
and findings of the audit programme, and checking that senior management are acting on its recommendations		
Monitoring the independence of the external auditor	X	

**C.2.4 Describe the organisational and operational rules and the responsibilities attributed to each of the board committees.**

The Company has two Board Committees (Auditing Committee and Governance and Corporate Responsibility Committee). Appointment and removal of its members is entrusted to the Board of Directors further to a proposal from the Board chairman. Committee member hold office for a three-year term and may be re-elected, and abandon office if they no longer hold director status or if this is agreed by the Board of Directors, subject to a prior opinion from the Governance and Corporate Responsibility Committee. The chairperson or each Committee is appointed by the Committee itself for a three-year term and may be re-elected after one year has transpired since he/she abandoned the post. Committees will issue minutes of all resolutions adopted at their meetings, in the terms established in the Regulations of the Board of Directors, which are made immediately available to all Board members through the Director's Portal. Furthermore, at the first Board meeting held, information is provided on the activity carried out by the Committees. On 23 December 2014, the Company's Board of Directors has decided to increase the number of Committee members, from three (3) to four (4). This counterweight measure has reinforced the presence of independent directors, as both Committees have included an independent director.

**AUDITING COMMITTEE**

The Committee directors are specially qualified to hold office, and offer long-term professional experience, further to high-level posts held outside Red Eléctrica, in matters related to those entrusted to the Committee. In relation to their professional profiles, of interest is their knowledge and experience in accounting or auditing matters, or both, taken into account for their designation, as provided in Article 13.1 of the Regulations of the Board of Directors. The Committee meetings have been regularly attended by Mr. Luis Villafruela Arranz, Corporate Manager of Regulation and Global Risk control, and Mr. Juan Lasala Bernad, Corporate Economic-Financial Manager, in order to respectively report on various matters related to the Committee's competences. In 2014, as regards a review of the Annual Accounts of the Company and its Group for 2013, the external auditor of the Company and its Group has explained the auditing process conducted and the final auditing opinion. The Committee agreed to favourably enforce the 2013 Annual Accounts. Tasks: The tasks assigned to the Auditing Committee are established in Article 23 of the Corporate By-

laws and Article 14 of the Regulations of the Board of Directors, which are published on the corporate website ([www.ree.es](http://www.ree.es)), under Corporate Governance, to which we refer. Amongst others, it will support the Board of Directors when surveying the process to draw up economic-financial information, internal control of the Company, independence of the external auditor, fulfilment of legal provisions and internal regulations, Company shareholders and any other competences expressly attributed by the Board of Directors. The latest amendment of the Board Regulations, approved in March 2013, gathered the provisions of the 18<sup>th</sup> additional provision of the Securities Market Act, adapted to Article 23.1 of the Corporate By-laws and best international practice in corporate governance matters, and also included certain tasks that were already performed *de facto* by the Committee. The recent reform of the Capital Companies Act to improve corporate governance has introduced minimum competences for the Auditing Committee, which is why the Corporate By-laws and Board Regulations will be soon reviewed in order to accordingly adjust to the new Act.

#### GOVERNANCE AND CORPORATE RESPONSIBILITY COMMITTEE

All Directors belonging to the Committee have proven experience to perform the duties entrusted to the Committee as a result of their long-term experience and knowledge, further to Article 12 of the Board Regulations. Tasks: The basic tasks of the Governance and Corporate Responsibility Committee, pursuant to Article 24 of the Corporate By-laws, are as follows: a) To inform and propose, in the case of independent directors, in advance, all proposals that the Board of Directors presents to the General Meeting to appoint or remove directors, including co-optation. To propose to the Board the appointment of a lead independent director. b) To propose to the Board of Directors a remuneration policy for directors and senior executives, and to ensure its compliance. c) To undertake duties to inform, supervise and propose in corporate governance matters, as determined by the Board of Directors. The foregoing basic responsibilities are described in more detail in Article 16 of the Regulations of the Board of Directors, which is published on the corporate website ([www.ree.es](http://www.ree.es)), under Corporate Governance, to which we refer. In 2013, as a result of amending the Board Regulations, the duties of this Committee were adjusted to best international practice in corporate governance, and some legal provisions were included, such as a reference to the Annual Report on Directors Remuneration regulated in Article 61 ter of the LMV, gathering relevant duties that the Committee had been performing but were not included in the Regulations.

**C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and**

**whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.**

In 2013, the Board of Directors of Red Eléctrica approved modifications to the Regulations of the Board of Directors. Among other items, these included modifications to the regulations of the Auditing Committee and the Corporate Responsibility and Governance Committee to incorporate international recommendations and best practices relating to Corporate Governance, so as to improve their organisation and performance.

There are no specific internal regulations for the Committees, the preference having been for comprehensive regulation in the Regulations of the Board of Directors.

The Regulations may be consulted on the Company website [www.ree.es](http://www.ree.es), in the Corporate Governance section, without prejudice to the fact they are registered at the CNMV and the Madrid Mercantile Registry and are therefore generally available to investors.

Both Board Committees prepare an annual report on their activities; these are included in full in the Annual Corporate Governance Report and are available on the Company's website.

**C.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of directors:**

Yes

No

<b>If the answer is no, explain the composition of the Executive or Delegate Committee</b>
Not applicable as there is no Executive Committee.

**D RELATED-PARTY AND INTRAGROUP TRANSACTIONS**

**D.1 Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions.**

<b>Competent body to approve related-party transactions</b>
The Board of Directors

<b>Procedure for approval of related-party transactions</b>
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 Auditing Committee, approved a policy on controlling related-party transactions and defined objective parameters for controlling related-party transactions, material or otherwise, recurring annual related-party

transactions, and related-party transactions requiring mandatory notification to the markets. The Auditing 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 of the Company with a significant shareholder unless, due to its nature and terms, it falls under the jurisdiction of the General Shareholders Meeting.

Explain if the authority to approve related-party transactions has been delegated to another body or person.

No delegation has been made. As previously mentioned, pursuant to the Regulations of the Board of Directors, the Board of Directors has approved a policy controlling related-party transactions. In implementation of this, the Auditing Committee reports periodically to the Board on such transactions. Where necessary as a result of their significance or value, such related-party transactions are put to the Board for approval.

**D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:**

**D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:**

**D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities:**

**In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:**

**D.5 Indicate the amount from related-party transactions.**

4,653 (Thousand Euros)

**D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.**

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 Article 37 of the Regulations of the Board of Directors, related parties are those determined by the regulations in force at any given time.

The conflicts of interest described in this section are reported in the Annual Report.

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 paragraph, as regards Conflicts of Interest, Board Members must comply with the conditions and requirements contained in the Corporate By-laws and in the Board Regulations, 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 itemized 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 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. The Oversight Body must periodically report to the Auditing Committee on the degree of compliance with the Code and on any incidents that may occur.

Pursuant to Article 13 of the Internal Code of Conduct on the Securities Market, the Auditing 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 parties subject or temporarily subject to the Code as may be submitted to the Committee by the Oversight Body.

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 I, are deemed to be subject to the Code and, accordingly, will be subject to that Code. 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.

The Board of Directors has formally reserved the examination of any material transaction carried out by the Company with a relevant shareholder, unless the matter is entrusted to the General Meeting due to its nature and conditions (Art. 39 of the Board Regulations).

In 2015, the corporate rules will also be accordingly adjusted to the LSC reform approved in December 2014.

**D.7 Is more than one Group company listed in Spain?**

Yes

No

Identify the listed subsidiaries in Spain:

**Listed subsidiaries**

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

<b>Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies</b>
--

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

<b>Mechanisms to resolve any potential conflicts of interest</b>
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## E RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 Describe the Risk Management System in place at the company.

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 area 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 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, and 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.
- General Procedure of Integrated Risk Control and Management.

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.”*

The Integrated Risk Management System includes any relevant task risks for the Company. Nevertheless and in order to comply with the provisions of Act 31/2014, amending the Capital Companies Act to improve corporate governance, complementary actions are being implemented in the system with respect to the tax risks.

The update of the Integrated Risk Management Policy, approved by the Board of Directors in November 2014, intends to keep the Policy constantly

updated in relation to the Group's Strategic Plan in force at all times. This Policy is available on the corporate website in the Corporate Governance section.

**E.2 Identify the bodies responsible for preparing and implementing 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 by the different bodies.

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 for knowledge and periodic monitoring of internal control, prevention and reporting systems.

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

The Auditing 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 achievement of global objectives.

The Global Risk Control and Regulation Department, which reports to the Office of the Chairman, is, through the Internal Auditing 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, Auditing 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 Auditing 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.

**E.3 Indicate the main risks which may prevent the company from achieving its targets.**

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, insofar 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 merits 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, 148 risks have been identified, the distribution of which by types is:

1. High:

- 1 regulatory risk
- 4 operational risks
- 0 business risks
- 0 market risks
- 0 counterparty risk

2. Medium:

- 6 regulatory risks
- 44 operational risks
- 2 business risks
- 0 market risks
- 1 counterparty risk

3. Low

- 7 regulatory risks
- 72 operational risks
- 3 business risks
- 4 market risks
- 4 counterparty risk

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

In 2015, it is expected to include in the Risks Map those risks related to a breach of Criminal Code by the Company, further to the Criminal Risk Prevention Programme.

**E.4 Identify if the company has a risk tolerance level.**

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 recoverability).
- 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 probability of occurrence and the level of impact of each risk are used to position each risk in a probability/impact matrix prepared by the Company, automatically determining the level of risk.

The level of risk tolerance, as defined by Red Eléctrica Group, only considers acceptable those risks which are classified as "low" on the above matrix. 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.

#### **E.5 Identify any risks which have occurred during the year.**

First risk arising in the year and impact:

The transmission network facilities are constantly exposed to operating events that may affect the continuity and security of electricity supply.

During 2014 certain events have occurred, entailing minor cuts in power supply.

- Underlying circumstances:

In general, these events were caused by third parties and weather conditions.

- Operation of control systems:

All control systems have worked adequately, as evidenced by the level of availability in the transmission network, registering 98.20% in 2014 (provisional figure) and 98.20% in 2013 (final figure).

The Company has insurance policies to mitigate the potential event of these events on the P&L account.

**E.6 Explain the response and monitoring plans for the main risks the company is exposed to.**

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

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.

- Risk supervision and action 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 to an acceptable level.

Periodically, on a quarterly and six-monthly basis for high-level risks and annually for the other levels of risk, the Internal Auditing 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 incidents that could affect security of supply (peninsular, insular and/or Ceuta and Melilla).
- Non-electrical incidents that could affect the environment, people, the efficiency of the Company, business results or other events that could impact the Company's reputation.

This procedure:

- Establishes the way in which this crisis should be managed in general.
- Determines 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.
- Establishes the composition of the committees responsible for managing each type of crisis, and the powers and responsibilities of its members.
- Relates the specific contingency plans that exist at Red Eléctrica for

each type of event

## **F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)**

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

### **F.1 The entity's control environment**

Specify at least the following components with a description of their main characteristics:

#### **F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.**

The responsibility model for the Company's Internal Control over Financial Reporting (hereinafter, ICFR) is articulated through the following special bodies, managements and organizational units, which implement, maintain and supervise the financial reporting process;

- The Board of Directors is ultimately responsible for the existence and maintenance of an adequate and effective ICFR. Specifically, pursuant to Article 5.6.vii) of the Regulations of the Board of Directors, the non-delegable functions of the Board of Directors include "approval of the policy for controlling and managing the main risks of the Company and of the Group, and for knowing and monitoring from time to time the internal control, prevention and reporting systems".

- The Corporate Economic-Financial Management, as the executor of the guidelines issued by the Board of Directors, has entrusted the Economic Management with responsibility for designing, implementing, operating and maintaining the consistency of the ICFR. As indicated in the Internal Control Manual, its responsibilities include "establishing an adequate control structure to ensure an effective Internal Control System".

- The Auditing Committee is in charge of supervising ICFR. According to Article 14 of the Regulations of the Board of Directors, the Auditing Committee will "supervise the reporting process and integrity of the Company's financial information, and of the Group, ensuring that all regulatory requirements are met, an adequate delimitation of the consolidation perimeter and an adequate application of any relevant accounting standards and criteria", and "will supervise internal auditing services, to ensure that all reporting

and internal control systems adequately operate". To carry out these tasks, the Auditing Committee is supported by the Internal Auditing and Risk Control Department.

The Group's organizational units are jointly responsible for the controls defined for their areas of responsibility, ensuring they are designed and operated effectively.

**F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:**

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

REE's Corporate Affairs and Institutional Relations Division, through its Human Resources Department, as the executor of the guidelines issued by the Board of Directors, is responsible for defining the basic structure of the organization, defining the different levels of authority and the consequent levels of responsibility. All of this aims to maintain a design an organisational structure that is implemented, reviewed and updated constantly.

The internal measures used by the Division to clearly define the lines of responsibility, and to determine the general framework of the organizational structure, are instrumented through the following documents:

- Consolidated Version of the Corporate By-laws.
- Internal Code of Conduct on the Stock Market.
- Corporate Responsibility Manual.
- Code of Ethics and corporate values.

Any particularities linked to the lines of responsibility and authority of the ICFR, are regulated through the ICFR Action Guide, describing maintenance tasks, update and supervision of ICFR at each level of responsibility described, pointing out that the Corporate Economic-Financial Management has delegated part of its tasks to the Economic Management, and the latter to the Department of Accounting Information and administration. The ICFR Action Guide is part of the Group's regulations and is available on the Intranet to all employees.

Dissemination of the organizational structure is achieved through the Intranet. All employees are provided with an updated flowchart.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The Group has implemented an appropriate framework of conduct, with specific values and guidelines for action, reinforcing the basis for achieving the objective of reliable and transparent financial information.

At this level, the following documents are aligned with the Group's corporate policies:

- Code of Ethics

The current "Code of Ethics: values and commitments" is approved by the Company's Board of Directors and effective as of 28 May 2013, until a new update is approved or the Code repealed. This Code provides a reference framework for ensuring responsible management and ethical behaviour among all members of the organisation in their work. The Code sets out our corporate values and behavioural guidelines, based on our principles and commitments, and demonstrates the company's firm commitment to transparent and ethical management. The Code applies to everyone in the Group. All Group employees receive a copy of the Code of Ethics and Corporate Values, together with appropriate training, either by attending courses and/or distance training, and it is also permanently available in both the internal rules and on the corporate website.

The Code of Ethics is reviewed on a regular basis to keep its requirements in line with the needs of the Company and its relationship with the environment and its stakeholders. The latest version incorporates ethical management recommendations and requirements proposed by leading international bodies, such as the United Nations (UN), the European Union (EU), the Organisation for Economic Cooperation and Development (OECD) and organisations such as Transparency International and Fundación Étnor, amongst others.

In terms of financial information, it includes the following descriptions of our corporate values:

- "Trustworthiness" - committed to preparing and providing reliable, accurate and realistic information, especially financial data.
- "Responsibility" - all decisions and actions must comply with the legal system and be the result of a

thoughtful process in which the possible consequences resulting thereof are assessed.

- “Leadership and Creativity” - commitment to management excellence is supported by efficient systems and processes, of which one valued element is participation and pride of belonging. It is also supported by the systematic quest for improvement, and in the identification and application of best practices. Transparent internal and external communication is an important element in the consolidation of business leadership.

The body in charge of examining infringements and proposing corrective action and sanctions is the Ethics Manager and Ombudsman of stakeholders, with assistance from the Chairman of the Red Eléctrica Group and the chairmen of the Auditing and Governance and Corporate Responsibility Committees.

- Internal Code of Conduct on the Stock Exchange:

The “Internal Code of Conduct on the Stock Exchange” was initially approved by the Board of Directors on 25 June 2009 and has subsequently been partly updated in various articles.

The Code provides rules of conduct on stock markets and mandatory registers, in relation to the following:

- Confidential and Relevant Information
- Conflicts of Interest
- Related Parties
- Rules on free pricing
- Treasury stock

The Code is applicable to the Obligated Parties described in Articles 2 and 3 (Directors, the Secretary and Deputy Secretary of the Company, as well as other persons whose ordinary tasks are related to the stock exchange and are expressly designated by the Oversight Body).

All obligated persons will receive a copy of the Code, and will sign a statement confirming receipt and awareness of the binding obligations, as indicated in Article 2.2.2.

The Oversight Body, for the purposes of this Code, as described in Article 11, is the Corporate Economic-Financial Management, which may be assisted by the Secretary’s

Office of the Board of Directors for any legal matters derived from its application or interpretation.

The "Internal Code of Conduct on the Stock Exchange" is periodically reviewed in order to adjust its requirements to the company's needs and its relationship with surroundings and stakeholders. The latest update took place in June 2014. In this new version, the member companies of the Group have been updated.

- Corporate Responsibility Policy

The object of this Policy is to establish principles and general guidelines so that all member companies of the Red Eléctrica Group are able to carry out a sustainable, ethical and responsible business management further to their tasks.

- **"Whistle-blowing" channel, for the reporting to the Auditing Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

The "Code of Ethics: values and commitments" sets out in detail the system for reporting, queries and suggestions. A system is included for receiving and processing potential infringements due to ethical, commercial, financial and accounting offences, and complaints under the Code. Any interested party may report any such alleged infringement.

Claims should be submitted, preferably, by electronic means. On the website of each company, there will be an easily accessible and visible channel through which claims can easily be sent to the Ethics Manager. The system will guarantee confidentiality and protect against reprisals in all its stages. The Ethics Manager will undertake to provide total confidentiality in carrying out his/her functions; this commitment will be extended to those who provide him/her internal support.

Furthermore, there is another channel to report infringements, complaints, consultations and ethical suggestions: the DÍGAME Service. This enables applications to be received from external stakeholders without access to the foregoing channels.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

The Human Resources Department manages and plans all matters concerning training programs and other support

items, based on the training plan prepared by the relevant Department. The Corporate Economic-Financial Management, as the executor in charge of designing, implementing, operating and guaranteeing the consistency of ICFR, proposes training plans to the Human Resource Department to ensure that all training plans are updated for the entire staff involved in reporting and reviewing financial information, including ICFR evaluation.

## **F.2 Risk assessment in financial reporting**

Report at least:

### **F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:**

- **The process exists and is documented.**

The Company bases its risk identification process, including risks of error or fraud in financial information, on the COSO (Committee of Sponsoring Organizations for the Commissions of the Treadway Commission) methodology, implementing practice to design and maintain an internal control system that provides reasonable security with respect to the reliability of regulated financial information.

The Internal Control System Manual for the Group's Financial Information has documented a risk evaluation process for financial information. This procedure is available in the Company's ICFR management tool, to which the managers involved have access.

- **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

The ICFR matrix intends to identify any accounts and breakdowns with a significant associated risks and with a material potential impact on financial information. In this process to identify significant accounts and breakdowns, quantitative and qualitative factors have been taken into account (complexity of operations, risk of fraud, level of process standardization and others).

This ICFR matrix is based on the current financial position and global consolidated P&L statement included in the Audited Consolidated Annual Accounts (AA).

For significant accounts and breakdowns, key processes and subprocesses have been defined that are associated thereto, identifying any risks that may generate errors and/or fraud in

financial information, covering all financial information objectives (existence and occurrence; integrity, valuation; presentation, breakdown and comparability; and rights and obligations).

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies. etc.**

The Auditing Committee, as part of its duties, supervises the adequate definition of a consolidation perimeter. To do this, the Department of Accounting Information and Administration is in charge of identifying and updating the consolidation perimeter, as described in the AA Closing Procedure and subsequent reporting to the Auditing Committee.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The Group's Integrated Risk Management Policy was approved by the Board of Directors on 24 July 2008. It aims to establish principles and guidelines to ensure that any relevant risks that may affect the Group's objectives and activities are identified, analysed, evaluated, managed and controlled systematically, with standard criteria and within the risk levels determined.

- **Which of the company's governing bodies is responsible for overseeing the process.**

The Board of Directors is, via the Auditing Committee, the body that ultimately has the duty of "periodically supervising the internal control and risk management systems, so that the principal risks are adequately identified, managed and disclosed", pursuant to the Board Regulations.

### **F.3 Control activities**

Indicate the existence of at least the following components, and specify their main characteristics:

- F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.**

Financial reporting is periodically reviewed, to include an ICFR description, according to varying levels of responsibility, in order to guarantee the quality of information.

The Department of Accounting Information and Administration, which is hierarchically dependent on the Group's Economic Management, revises and formally validates all financial data drawn up and reported to the Corporate Economic-Financial Manager, in order to ensure its reliability, on a monthly basis.

The procedure to review and authorise financial information is formalized monthly through internal audits by the Corporate Economic-Financial Management and ends when it is presented to the Auditing Committee and subsequently to the Board of Directors.

Amongst its tasks, the Corporate Economic-Financial Management is entrusted with supervising the design process, implementation, operation and consistency of ICFR, and to keep the Auditing Committee duly informed on the matter. These tasks have been delegated to the Economic Management.

In turn, the Economic Management should ensure that ICFR is adequately designed and implemented, and guarantee its operation and consistency.

The Internal Auditing and Risk Management Department is in charge of supporting the Auditing Committee when supervising and evaluating ICFR, by conducting audits, included in its annual plan, and reporting their results.

All units involved in financial reporting should ensure that ICFR is fulfilled, updated and maintained, within their area of responsibility.

The ICFR implemented in the Company involves the entire organization, by implementing and periodically supervising the operation of various checks in relation to financial reporting. The ICFR dates back to 2008 and is part of a voluntary project; it has adjusted to all regulatory requirements and is being reviewed by an independent third party since 2008.

Each year, any key processes/subprocesses identified as material are documented. These processes/subprocesses cover the various types of transactions that may have a material effect on the financial statements, as well as any that may be affected by relevant judgments, estimates, valuations and projections.

All documentation is provided to the managers of each cycle/subcycle and has been endorsed by the managers of the checks documented in the ICFR control and risk matrix, through an ordinary approval channel, and is disseminated amongst all participations.

Documentation describing the activity flows and checks (including those related to risks of fraud) includes:

- Details of procedures and internal rules, regulating matters ranging from general checks to subprocesses.
- Details of organizational structures.
- Details of significant cycles.
- Flowcharts for each subprocess.
- Description of the process, specific risk covered, initial information before the check and subsequent output after the check, frequency, object covered, potential mitigated errors, coverage of fraud and typology and the department in charge of execution.
- Details of all data systems affecting automatic and/or semi-automatic processes.

The major transactions that attempt to ensure reliability and transparency in the process for drawing up the financial information include, in particular:

- Reviewing the processes for estimates and provisions (at the level of income and expenses).
- Reviewing impairment of registered assets (essentially referring to assets).
- Reviewing the bringing of assets into operation and the associated valuation processes (capitalizable items, monitoring administrative approvals, technical conditions for commissioning, etc.).
- Review through specific, mandatory procedures and/or instructions:
  - o Manual recording and/or accounting entries.
  - o One-off operations (assessment at the level of senior management of potential economic financial, corporate and legal implications of such operations).
  - o Closing the Financial Statements and drawing up the individual and consolidated Financial Statements. The internal rules that govern these points are set out in: (i) the "Accounting Policies Manual and Group Accounting Plan" (setting out the accounting policies to be followed by the Group when recording accounting entries in the information system, and for drawing up the Financial Statements and the Annual Accounts, for the purpose of ensuring a true and fair view of net equity, the financial situation, the results of operations, changes in net equity and cash flows) and; (ii) the "Procedures for drawing up and closing the Financial Statements and the individual and

consolidated Financial Statements" which states that "the process for closing the financial statements takes place twice a year (at year-end and half-way through the year when interim half-yearly information is prepared), with the purpose of obtaining financial statements that reflect the company's economic situation. In this process all the companies in the group that have to draw up their own financial statements in accordance with the local rules in force in their own countries are affected".

o Drawing up and publishing the financial information (including aspects relating to the preparation and approval of the Annual Corporate Governance Report, Annual Accounts, Corporate Responsibility Report, notifications to the National Securities Exchange Commission, official notifications, etc.). The main internal rules governing these aspects are set out in: (i) the "Internal Code of Conduct on the Securities Market", (ii) the "Procedure for drawing up and closing the Financial Statements and individual and consolidated Financial Statements". At this specific level of closure of information and, as applicable, subsequent publication, the Investor Relations Department, the Corporate Economic and Financial Department, the Office of the Secretary, the Board of Directors and Chairman, play an essential role.

**F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

The Group has implemented a conduct Protocol on the use of IT and communications systems (its last update was in May 2014), for which the Corporate Systems and IT Management is responsible.

The document establishes the main rules governing the use of computer and telecommunication resources that the Group provides to its workers (equipment, applications, Internet access and electronic messaging services).

In turn, the Group has a procedure on Computer Security for its corporate IT systems, regulating the main activities followed to manage security in IT system surroundings, entrusted to the Corporate Systems and IT Management.

The following checks and measures have been implemented to ensure that the Group can reasonably guarantee the internal control of its IT systems:

- Each year, a risk analysis is conducted on the security of information in Corporate Information Systems (CIS), to obtain a list of the most relevant risks for appraisal, establishing any measures and steps to reduce or maintain the risk level of those deemed most relevant.

- Each year, security regulations are reviewed or whenever there is a significant change, in order to ensure their suitability, adequacy and efficiency.

- An inventory is kept of all assets (equipment, software, applications and data) included in the CIS.

Each asset will be assigned an organizational unit in charge.

- General measures will be established for data protection depending on its classification category. In turn, the management unit may define specific measures to complement any general measures.

- Data security information is drafted and published, addressed to employees and external collaborators.

- The managers of all Units will check that any new employees and external collaborators are aware of the data security documentation published. Furthermore, they will ensure that these fulfil the specifications of the documentation.

- The Human Resources Management will inform the Systems and IT Department of all movements of internal and external staff (de-registrations, registrations, transfers and relocations) in order to apply the necessary changes in data system access rights.

- All employees and collaborators will return the computer equipment in their hands at the end of their job, contract or relationship with the company and may not withhold any information.

- A risk evaluation will be conducted to determine any security implications derived from the participation of external collaborators in business processes, defining and implementing the necessary checks.

- The Human Resources Management will define and implement physical security measures to protect the facilities where data systems are located, against damage from fire, flooding and other natural or human-caused disasters. Furthermore, it will establish adequate entry checks at restricted access areas to ensure that only authorised staff is allowed to enter.

- The Systems and IT Department will ensure that all data systems under its management are adequately and safely operating, by drawing up and implementing appropriate operating procedures. This procedure will contemplate task segregation to reduce the risk of negligence or deliberate misuse of the system. If computer services are provided by third parties, the Systems and IT Department will check that all security control measures and service levels agreed have been implemented and maintained by third parties.

- The Systems and IT Department is in charge of defining rules and procedures to manage user access (authentication and authorisation) to data systems.

- Formal communication procedures will be established to ensure that information security events and weaknesses associated to data systems are reported in such a way as to enable adequate corrective action.

- A Computer Contingency Plan (CCP) is drawn up for data systems so that, in the event of disaster destroying the systems or preventing access, service is able to be reinstated in a period of time in line with its criticality.

**F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.**

The Group is particularly concerned about operations carried out by third parties (in order to ensure a maximum guarantee of control in any key processes that might be outsourced, in relation to the standards required by the Group at the level of its processes).

In all cases, the outsourcing of such activities is set out in a service agreement, which clearly specifies the service in question and the means to be used by the service provider to provide the service. Exhaustive control is conducted over these outsourced activities, with evidence of such control.

Furthermore, the Group has established a code of conduct for its suppliers in order to make them aware of the general principles applicable to all areas of employment and professional activity. The Group seeks to ensure that these policies are continuously applied by its suppliers.

**F.4 Information and communication**

Indicate the existence of at least the following components, and specify their main characteristics:

**F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.**

The Economic Information and Administration Department, as part of the Economic Management, is responsible for defining and resolving all issues related to the interpretation of accounting policies, providing coverage for all areas of the Company.

The Group has developed an "Accounting Policies Manual and Group Accounting Plan" setting out guidelines and activities relating to accounting records. This is communicated to all

applicable employees (all actions must be taken in accordance with the "Accounting Policies Manual and Group Accounting Plan").

This Department is located within the Corporate Economic and Financial Department, which in turn reports to the Chairman of the Board of Directors himself. The accounting policies are established on the basis of the legal framework applicable to the Company, as set out in the Commercial Code, the National Chart of Accounts and other commercial legislation, and in the International Financial Reporting Standards adopted by the European Union.

**F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.**

The Group has formal processes in place for closing and preparing information specifically associated with the financial statements (FS) and the annual accounts. In both cases, the procedures for closing and drawing up the FS and annual account set out the guidelines for action and supervision applied in obtaining, analysing and subsequently preparing the information for final approval.

In addition, there is a specific system for the entire process of preparing the Annual Accounts, where the Auditing Committee, which reports functionally to the Board of Directors, takes on particular significance. The Auditing Committee is tasked with ensuring maximum confidence in the entire process of drawing up the information (both with respect to the supervisory tasks of the Internal Audit function and the external auditor), as a step prior to preparation by the Board of Directors.

In order to provide external agents with accurate and reliable financial information about its net equity, financial situation and the result of its operations. The "Internal Code of Conduct on the Securities Market" governs these aspects, both with respect to notifications to supervisory and/or regulatory bodies, and to press releases.

**F.5 Monitoring of the functioning of the system**

Indicate the existence of at least the following components, describing their main characteristics:

**F.5.1. The ICFR monitoring activities undertaken by the Auditing Committee and an internal audit function whose competencies include supporting the Auditing Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any**

**flaws detected, and whether it has considered their potential impact on its financial information.**

Guaranteeing an up-to-date model that is in line with the reality of the business and with best practices is a critical aspect in achieving an efficient ICFR model that ensures that the process for drawing up financial information is reliable and transparent.

The Board of Directors is ultimately responsible for the existence and adequate and effective maintenance of ICFR, the supervision of which is delegated to the Auditing Committee. The senior management is in charge of design and implementation.

This constant analysis and monitoring of the ICFR, detecting any faults and making the appropriate changes and improvements, is performed through the following:

- Effective supervision by the Auditing Committee, in relation to ultimate control over the ICFR model, delegated by the Board of Directors, and carried out through the Internal Auditing function.
- Through the function delegated to it by the Auditing Committee, Internal Audit plays a key role in the ICFR. In this regard, it carries out regular checks of the cycles in the ICFR system, in accordance with the Annual Audit Plan.
- Lastly, where proposed actions are finalized and subsequently included, a design and final validation process is set in motion, so that they may ultimately be included in the ICFR model. Internal Audit plays a key role throughout this supervision process. Its main objectives are:
  - To ensure and improve compliance with the internal controls established at the Company.
  - To carry out regular checks, on selective basis, to ensure that documents are kept up-to-date, in accordance with the provisions of the Annual Audit Plan.
  - To check that actions to correct the ICFR have been properly implemented based on the provisions of the Annual Audit Plan.

To ensure that these objectives are achieved, an "Annual Internal Audit Plan" is prepared, which is supervised and approved by the Auditing Committee.

**F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Auditing Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

The Regulations of the Board of Directors, in relation to external auditors, periodically demand that, at least once a year, the quality of the Group's internal control procedures be evaluated.

As regards the Company's Auditing Committee, with respect to the supervision of the functioning of the System, its objectives include ensuring that the auditor, the Internal Audit function and other experts can report to management and to the Board of Directors on major internal control weaknesses identified in the processes for reviewing the financial statements and in any other processes entrusted to them. In this regard, reports are prepared for each review task on completion, and prior to the Board of Directors drawing up the financial statements.

## **F.6 Other relevant information**

### **F.7 External auditor review**

State whether:

**F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.**

Since 2008, REE has voluntarily presented its ICFR for review. These reviews have been conducted by Deloitte, S.L. until 31 December 2012, and by PricewaterhouseCoopers since 1 January 2013.

## **G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

Indicate the degree of the company's compliance with Corporate Governance recommendations.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

- 1. The By-laws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

See sections: A.10, B.1, B.2, C.1.23 and C.1.24.

Compliant  Explain

- 2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:**

- a) **The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:**

- b) **The mechanisms in place to resolve possible conflicts of interest.**

See sections: D.4 and D.7

Compliant  Partially compliant  Explain  Not applicable

- 3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders Meeting for approval or ratification. In particular:**

- a) **The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;**

- b) **Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;**

- c) **Operations that effectively add up to the company's liquidation.**

See section: B.6

Compliant  Partially compliant  Explain

- 4. Detailed proposals of the resolutions to be adopted at the General Shareholders Meeting, including the information stated in Recommendation 27, should be made available at the same time as the publication of the Meeting notice.**

Compliant X Explain

- 5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:**
- a) The appointment or ratification of directors, with separate voting on each candidate;**
  - b) Amendments to the By-laws, with votes taken on all articles or groups of articles that are materially different.**

Compliant X Partially compliant  Explain

- 6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.**

Compliant X Explain

- 7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time.**

**It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.**

Compliant X Partially compliant  Explain

- 8. The board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:**

- a) The company's general policies and strategies, and in particular:**
  - i) The strategic or business plans, management targets and annual budgets;**
  - ii) Investment and financing policy;**
  - iii) Design of the structure of the corporate group;**
  - iv) Corporate governance policy;**
  - v) Corporate social responsibility policy;**
  - vi) Remuneration and evaluation of senior officers;**
  - vii) Risk control and management, and the periodic monitoring of internal information and control systems.**

viii) **Dividend policy, as well as the policies and limits applying to treasury stock.**

See sections: C.1.14, C.1.16 and E.2

**b) The following decisions:**

i) **On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.**

ii) **Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.**

iii) **The financial information that all listed companies must periodically disclose.**

iv) **Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders Meeting;**

v) **The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**

**c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").**

**However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:**

**1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;**

**2. They go through at market prices, generally set by the person supplying the goods or services;**

**3. Their amount is no more than 1% of the company's annual revenues.**

**It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Auditing Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.**

**Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.**

See sections: D.1 and D.6

Compliant  Partially compliant  Explain

- 9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.**

See section: C.1.2

Compliant X Explain

- 10. External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

See sections: A.3 and C.1.3.

Compliant X Partially compliant  Explain

- 11. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.**

**This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:**

- 1. In large capitalisation companies where few or no equity stakes attain the legal threshold for significant shareholdings, but there are shareholders with considerable sums actually invested.**
- 2. In companies with a plurality of shareholders represented on the board but not otherwise related.**

See sections: A.2, A.3 and C.1.3

Compliant X Explain

- 12. The number of independent directors should represent at least one third of all board members.**

See section: C.1.3

Compliant X Explain

- 13. The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.**

See sections: C.1.3 and C.1.8

Compliant X Partially compliant  Explain

**14. When women directors are few or non-existent, the Nomination Committee should take steps to ensure that:**

- a) **The process of filling board vacancies has no implicit bias against women candidates;**
- b) **The company makes a conscious effort to include women with the target profile among the candidates for board places.**

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Compliant  Partially compliant  Explain  Not applicable

**15. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committee.**

See sections: C.1.19 and C.141

Compliant  Partially compliant  Explain

**16. When a company's Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.**

See section: C.1.22

Compliant  Partially compliant  Explain  Not applicable

**17. The Secretary should take care to ensure that the board's actions:**

- a) **Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;**
- b) **Comply with the company By-laws and the regulations of the General Shareholders Meeting, the Board of Directors and others;**
- c) **Are informed by those good governance recommendations of the Unified Code that the company has accepted.**

**In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board regulations.**

See section: C.1.34

Compliant  Partially compliant  Explain

**18. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.**

See section: C.1.29

Compliant  Partially compliant  Explain

**19. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.**

See sections: C.1.28, C.1.29 and C.1.30

Compliant  Partially compliant  Explain

**20. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.**

Compliant  Partially compliant  Explain  Not applicable

**21. The board in full should evaluate the following points on a yearly basis:**

- a) **The quality and efficiency of the board's operation;**
- b) **Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;**
- c) **The performance of its committees on the basis of the reports furnished by the same.**

See sections: C.1.19 and C.1.20

Compliant  Partially compliant  Explain

**22. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the By-laws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.**

See section: C.1.41

Compliant  Explain

**23. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.**

See section: C.1.40

Compliant  Explain

**24. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance**

**rules. Directors should also be offered refresher programmes when circumstances so advise.**

Compliant  Partially compliant  Explain

**25. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:**

**a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;**

**b) Companies should lay down rules about the number of directorships their board members can hold.**

See sections: C.1.12, C.1.13 and C.1.17

Compliant  Partially compliant  Explain

**26. The proposal for the appointment or renewal of directors which the board submits to the General Shareholders Meeting, as well as provisional appointments by the method of co-optation, should be approved by the board:**

**a) On the proposal of the Nomination Committee, in the case of independent directors.**

**b) Subject to a report from the Nomination Committee in all other cases.**

See section: C.1.3

Compliant  Partially compliant  Explain

**27. Companies should post the following Director particulars on their websites, and keep them permanently updated:**

**a) Professional experience and background;**

**b) Directorships held in other companies, listed or otherwise;**

**c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with;**

**d) The date of their first and subsequent appointments as a company director, and;**

**e) Shares held in the company and any options on the same.**

Compliant  Partially compliant  Explain

**28. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.**

See sections: A.2, A.3 and C.1.2

Compliant  Partially compliant  Explain

- 29. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the By-laws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of the duties inherent in his or her post or comes under one of the disqualifying grounds of its independent capacity enumerated in Ministerial Order ECC/461/2013.**

**The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 11.**

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Compliant  Explain

- 30. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.**

**The moment a director is indicted or tried for any of the crimes stated in article 213 of the Capital Companies Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.**

See sections: C.1.42 and C.1.43

Compliant  Partially compliant  Explain

- 31. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.**

**When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.**

**The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.**

Compliant  Partially compliant  Explain  Not applicable

- 32. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.**

See section: C.1.9

Compliant  Partially compliant  Explain  Not applicable

- 33. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.**

**The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.**

Compliant  Partially compliant  Explain  Not applicable

- 34. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.**

Compliant  Explain  Not applicable

- 35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.**

Compliant  Explain  Not applicable

- 36. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.**

Compliant  Explain  Not applicable

- 37. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.**

See sections: C.2.1 and C.2.6

Compliant  Partially compliant  Explain  Not applicable

- 38. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.**

Compliant  Explain  Not applicable

- 39. In addition to the Auditing Committee mandatory under the Securities Market Act, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.**

**The rules governing the make-up and operation of the Auditing Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:**

- a) **The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;**
- b) **These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, at the Committees' invitation.**
- c) **Committees should be chaired by an independent director.**
- d) **They may engage external advisors, when they feel this is necessary for the discharge of their duties.**
- e) **Meeting proceedings should be minuted and a copy sent to all board members.**

See sections: C.2.1 and C.2.4

Compliant  Partially compliant  Explain

- 40. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Auditing Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.**

See sections: C.2.3 and C.2.4

Compliant  Explain

- 41. Auditing Committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management.**

Compliant  Explain

- 42. Listed companies should have an internal audit function, under the supervision of the Auditing Committee, to ensure the proper operation of internal reporting and control systems.**

See section: C.2.3

Compliant  Explain

- 43. The head of internal audit should present an annual work programme to the Auditing Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.**

Compliant  Partially compliant  Explain

- 44. Control and risk management policy should specify at least:**

- a) **The different types of risk (operational, technological, financial, legal, reputational...) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;**
- b) **The determination of the risk level the company sees as acceptable;**

- c) **Measures in place to mitigate the impact of risk events should they occur;**
- d) **The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

See section: E

Compliant  Partially compliant  Explain

**45. The Auditing Committee's role should be:**

**1. With respect to internal control and reporting systems:**

- a) **The main risks identified as a result of the review of the efficacy of the company's internal control and internal audit are properly managed and disclosed.**
- b) **Monitor the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget of this service; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.**
- c) **Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.**

**2. With respect of the external auditor:**

- a) **Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.**
- b) **Monitor the independence of the external auditor, to which end:**
  - i) **The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**
  - iii) **The Committee should investigate the issues giving rise to the resignation of any external auditor.**

See sections: C.1.36, C.2.3, C.2.4 and E.2

Compliant  Partially compliant  Explain

**46. The Auditing Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.**

Compliant  Explain

**47. The Auditing Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:**

- a) **The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**
- b) **The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**
- c) **Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.**

See sections: C.2.3 and C.2.4

Compliant  Partially compliant  Explain

- 48. The Board of Directors should seek to present the annual accounts to the General Shareholders Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Auditing Committee and the auditors should give a clear account to shareholders of their scope and content.**

See section: C.1.38

Compliant  Partially compliant  Explain

- 49. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent directors.**

See section: C.2.1

Compliant  Explain  Not applicable

- 50. The Nomination Committee should have the following functions in addition to those stated in earlier Recommendations:**

- a) **Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.**
- b) **Examine or organise, in appropriate form, the succession of the Chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.**
- c) **Report on the senior officer appointments and removals which the chief executive proposes to the board;**
- d) **Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.**

See section: C.2.4

Compliant  Partially compliant  Explain  Not applicable

**51. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.**

**Any board member may suggest directorship candidates to the Nomination Committee for its consideration.**

Compliant  Partially compliant  Explain  Not applicable

**52. The Remuneration Committee should have the following functions in addition to those stated in earlier Recommendations:**

**a) Make proposals to the Board of Directors regarding:**

**i) The remuneration policy for directors and senior officers;**

**ii) The individual remuneration and other contractual conditions of executive directors.**

**iii) The standard conditions for senior officer employment contracts.**

**b) Oversee compliance with the remuneration policy set by the company.**

See sections: C.2.4

Compliant  Partially compliant  Explain  Not applicable

**53. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.**

Compliant  Explain  Not applicable

## **H OTHER INFORMATION OF INTEREST**

**1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.**

**2. You may include in this section any other information, clarification or observation related to the above sections of this report.**

**Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.**

**3. Also state whether the company voluntarily subscribes to other international, sector-based or other ethical principles or standard practices. If applicable identify the Code and date of adoption.**

For several years now, the Company voluntarily draws up an Annual Corporate Governance Report, available on the corporate website, following its own model,

structure and content. It intends to adequately respond to its shareholding's requirements and recommendations (to which we refer for any interested third party). This Report, drawn up according to the Standard Form provided in Annex I to CNMV Circular 5/2013, has been included as an Official Annex to said Annual Corporate Governance Report of the Company.

C.1.2 and C.1.3: The Board of Directors Meeting held on 13 February 2015, further to a proposal from the Governance and Corporate Responsibility Committee, has decided to appoint as independent director of the Company, by co-optation, Mr. José Luis Feito Higuera, to cover the vacancy left by Mr. Juan Iranzo Martín's resignation from office as independent director, on 13 October 2014, which was accepted by the Board of Directors at its meeting held on 28 October 2014. Consequently, at the date of approval of this Report, the Board of Directors of the Company consists of 11 directors: 1 executive director (representing 9% of the Board members), 7 independent directors (representing 63.7% of the Board members) and 3 proprietary directors (representing 27.3% of the Board members). The professional profile of the independent director Mr. José Luis Feito Higuera, appointed by the Board of Directors at its meeting of 13 February 2015, is available on the corporate website and will be published and included in the documentation of the next Ordinary General Shareholders Meeting of the Company, once it is called.

The resignation date indicated with respect to Mr. Alfredo Parra García-Moliner, Mr. José Ángel Partearroyo Martín and Mr. Juan Iranzo Martín coincides with the date of acceptance of their resignation by the Company's Board of Directors.

C.1.4: Following the appointment of the independent director Mr. José Luis Feito Higuera, at the Board of Directors Meeting of 13 February 2015, the number of female members on the Board of Directors (5) represents 45.45% of all Board members, all of whom are independent directors.

C.1.22: Of interest is the new content of Article 529.ter) LSC, which includes the following non-delegable powers in tax matters entrusted to the Board of Directors:

- Determination of the risk control and management policy, including tax risks, and the supervision of internal reporting and control systems (Art. 529 ter.1.b).
- Approval of all types of investments or operations which, due to the large amount or special characteristics involved, are strategic or entail a special tax risk, unless the need to be approved by the General Meeting (Art. 529 ter.1.f).
- Approval of creating or acquiring holdings in special-purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any other similar transactions or operations which, due to their complexity, could be detrimental to the transparency of the Company and its Group (Art. 529 ter.1.g).
- Determination of the Company's tax strategy (Art. 529 ter.1.i).

The Auditing Committee, as a new express responsibility, has also been entrusted with supervising the Company's "tax" risk management systems.

Furthermore, the LSC has added as a novelty to be included in the ACGR, the obligation to expressly report on “tax” risk control systems.

Red Eléctrica Group’s tax policy is based on the principles of transparency, good governance and responsibility.

The tax policy is part of the general principles and guidelines established for the Economic-Financial Management of the Red Eléctrica Group, These general principles and guidelines for Economic-Financial Management in tax matters include:

- To promote best practice in management matters, through continuous improvement.
- To manage the Company’s activity by adequately appraising the tax risks, establishing adequate devices to cover, prevent and reduce the same.
- To draw up tax information for internal management and compliance with external requirements, in order to provide support in decision-making, providing, with the utmost transparency, the necessary information to financial markets and other stakeholders, and comply with legal and tax requirements.

In order to offer more transparent tax information for its various stakeholders, the Red Eléctrica Group has calculated its Total Tax Contribution, in order to highlight the economic and social function derived from the Group’s tax payments.

In order to calculate its total tax payments, the Red Eléctrica Group has followed PwC’s Total Tax Contribution (TTC), which measures the total impact derived from a company’s payment of tax. This appraisal is conducted in terms of the total contribution of taxes paid to various Administrations, directly or indirectly, as a result of Red Eléctrica Group’s economic activity.

The Total Tax Contribution of the Red Eléctrica Group is described in the 2014 Corporate Social Responsibility Report.

According to the Regulations of the Board of Directors- Article 5.5.b).iii) and iv)-, the matters directly reserved to the Board of Directors, on a non-delegable basis, include the following:

- Decisions on any type of investment or operation which, due to its large amount or special characteristics, is strategic, unless it needs to be approved by the General Meeting.
- Decisions on creating or acquiring holdings in special-purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any transactions and operations that may be detrimental to the Group’s transparency.

In relation to the foregoing decisions and operations, and whenever an opportunity arises of interest for the Group, the Board of Directors will analyse and take into account, amongst others, the main aspects and tax risks involved.

The Auditing Committee's tasks, foreseen in the Regulations of the Board (Art. 14.6.b)), include reporting to the Board on any unique investment operations, upon request and, in any case, when creating or acquiring holdings in special-purpose vehicles or entities domiciled in countries or territories considered tax havens, as well as any transactions and operations that may be detrimental to the Group's transparency.

Consequently, should this type of operation arise, the Auditing Committee will analyse and inform the Board about the main aspects and economic-financial risks involved, to include any tax issues and risks.

The Code of Ethics of the Red Eléctrica Group establishes a commitment to not incorporate enterprises in order to evade tax in territories considered tax havens.

The Red Eléctrica Group has an Integrated Risk Management System that covers any relevant fiscal risks for the Company. Nevertheless, in order to fulfil the provisions of Act 31/2014, amending the Capital Companies Act to improve corporate governance, complementary steps are being taken in the System with respect to tax risks.

Red Eléctrica's processes are integrated into systems structured according to international standards of reference (ISO 9001, ISO 14001 and OHSAS18001), and their layout has included controlling measures to mitigate or reduce the main risks related thereto.

In addition to these processes, there is a specific internal control system for financial information (ICSFI), which includes fiscal data and processes, based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology. These processes and systems are systematically subject to internal and external audits.

In 2014, inspection activities on basic Spanish taxes have ended, for the 2008, 2009 and 2010 financial years. As a result, all Certificates have been signed In Conformity, reflecting the adequate statement, in the Inspectorate's opinion, of all the Company's taxes; said Certificates are final, as they cover verification and investigation activities on all components of the Company's tax obligations.

C.1.26: - In light of the notice provided by the Chairman of the Board of Directors, Mr. José Folgado Blanco, to the Governance and Corporate Responsibility Committee, before reaching the age of 70 years (which took place on 3 April 2014), where he formally handed over his post to the Board of Directors, pursuant to Article 22.2.a) of the Board Regulations, and based on the opinion issued by the Governance and Corporate Responsibility Committee, at its meeting held on 16 January 2014, in the sense that his resignation as director was not necessary, the Board of Directors, at a meeting held on 28 January 2014,

unanimously agreed to ratify his position as director and chairman of the Board of Directors; clearly, Mr. Folgado is fully capable and capacitated to perform his duties on the Board of Directors of Red Eléctrica Corporación, S.A., as evidenced by the value he has been providing to the Company as its chairman. Consequently, Mr. Folgado's office as director, approved by the General Shareholders Meeting, was extended until 19 April 2016.

E.1: The 4<sup>th</sup> edition of the Integrated Risk Management Policy is in force. Its update was approved by the Board of Directors on 25 November 2014. The 4<sup>th</sup> edition of the General Procedure for Integrated Risk Management and Control is currently in force, and was approved by the Management Committee on 17 January 2013.

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on 24/02/2015.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes  No



**RED ELÉCTRICA CORPORACIÓN, S.A.**

Independent Assurance Report on the design and effective  
application of the System of Internal Control over Financial Reporting

31 December 2014



This version of our report is a free translation from the original in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

## **INDEPENDENT ASSURANCE REPORT ON THE DESIGN AND EFFECTIVE APPLICATION OF THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Board of Directors of Red Eléctrica Corporación, S.A.:

We have verified, to the level of reasonable assurance, the design and effective application of the System of Internal Control over Financial Reporting (SICFR), described in the accompanying document of Red Eléctrica Corporación, S.A. and subsidiaries (the Red Eléctrica Group) for the year ended 31 December 2014. This system is based on the criteria and policies defined by the Red Eléctrica Group in accordance with the guidance published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in their "Internal Control-Integrated Framework".

A System of Internal Control over Financial Reporting is a process designed to provide reasonable assurance on the reliability of financial information, in accordance with the applicable financial reporting legislative framework and includes those policies and procedures which: (i) enable the records reflecting the transactions performed to be kept accurately and to an appropriate level of detail; (ii) provide reasonable assurance that transactions are correctly accounted for, enabling the preparation of the financial information, in accordance with the applicable financial reporting framework and they are performed solely in accordance with established authorisation; and (iii) they provide reasonable assurance concerning the timely prevention or detection of unauthorised acquisitions, use or sales of the Group's assets which may have a material impact on the financial information. In this respect, it should be borne in mind that, given the limitations inherent in all Systems of Internal Control over Financial Reporting, irrespective of the quality of design and operability, these can only provide reasonable but not absolute assurance, for the objectives pursued, accordingly, there may be errors, irregularities or fraud which may not be detected.

### **Responsibility of the Directors for the System of Internal Control over Financial Reporting**

The Board of Directors is responsible for adopting the necessary measures to reasonably assure the implementation, maintenance and supervision of an adequate System of Internal Control over Financial Reporting and assessing its efficiency, the development of improvements to that system and the preparation and definition of the content of the information concerning the attached SICFR report.

### **Professional's Responsibility**

Our responsibility is limited to issuing an independent assurance report on the design and effective application of the System of Internal Control over Financial Reporting of the Red Eléctrica Group, on the basis of the work carried out in accordance with the guidance contained in ISAE 3000: "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", published by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), for the issue of reasonable assurance reports.



Reasonable assurance engagements include understanding the System of Internal Control over Financial Reporting, assessing the risk that there may be material internal control weaknesses, that the controls are not adequately designed or do not operate efficiently, testing and assessing the design and effective application of such system and carrying out those other procedures which may be considered necessary.

We understand that the evidence that we have obtained provides a sufficient and appropriate basis for our opinion.

### **Procedures performed**

For the purposes of the issue of this report, we applied the procedures described below:

1. Reading and understanding the information prepared by the Red Eléctrica Group on the SICFR and assessing whether it includes all the information required under Circular 5/2013 of 12 June 2013 of the Spanish National Securities Exchange Commission, for the purposes of describing the SICFR in Annual Corporate Governance Reports.
2. Review of the supporting documentation, explaining the information included above and which mainly comprises that directly made available to the persons responsible for preparing the descriptive information of the SICFR. In this respect, such documentation includes reports prepared by the Internal Audit function, Senior Management and other internal and external specialists as part of their work supporting the Audit Committee.
3. Interviews with key personnel, responsible for the areas affected by the System of Internal Control over Financial Reporting in order to gain an understanding of the processes, assess their design and verify that the control procedures described are in place in the Red Eléctrica Group.
4. Performance of selective tests, based on sampling criteria, on supporting documentation evidencing the effective application of the System of Internal Control over Financial Reporting.
5. Re- performance of key controls through a selection of transactions in order to obtain evidence that internal control procedures are applied in the established manner and obtain assurance of the existence, effectiveness and on-going functioning of controls throughout the period.
6. Reading of the minutes of the meetings of the Board of Directors, Audit Committee and other committees of the Red Eléctrica Group for the purposes of assessing consistency between the matters addressed by them in connection with the SICFR and the information detailed in point 1 above.
7. Obtaining the letter of representation for the work performed, duly signed by the persons responsible for the preparation and writing up of the information detailed in point 1 above.

### **Independence**

We carried out our work in accordance with the independence rules required by the Code of Ethics of the International Federation of Accountants (IFAC).



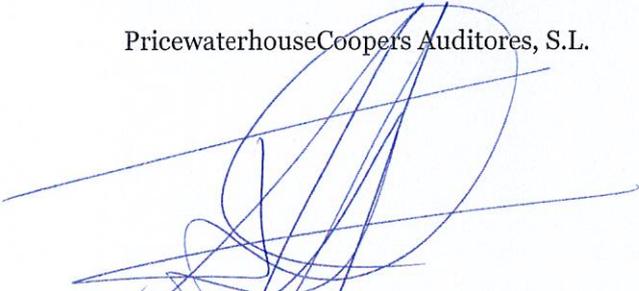
## Conclusion

In our opinion, at 31 December 2014, the Red Eléctrica Group had, in all material respects, an effective System of Internal Control over Financial Reporting for the year ended 31 December 2014, which is based on the criteria and policies defined by the Management of the Red Eléctrica Group in accordance with the guidance published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its “Internal Control – Integrated Framework”.

Similarly, we verified that the disclosures contained in the SICFR information attached at 31 December 2014 have been prepared, in all materials respects, in accordance with the requirements laid down by Legislative Royal Decree 1/2010, of 2 July, which approved the revised text of the Spanish Corporations Law, modified by Law 31/2014, of 3 December, for the improvement of the Corporate Governance, and Circular 5/2013 of 12 June 2013 of the Spanish National Securities Market Commission for the purposes of the description of the SICFR in Annual Corporate Governance Reports.

This engagement does not constitute an audit of the accounts, nor is it subject to the Audit Law, approved by Legislative Royal Decree 1/2011, of 1 July. Accordingly, we do not express an audit opinion in the terms envisaged in said legislation.

PricewaterhouseCoopers Auditores, S.L.



Iñaki Goiriéna Basualdu

25 February 2015