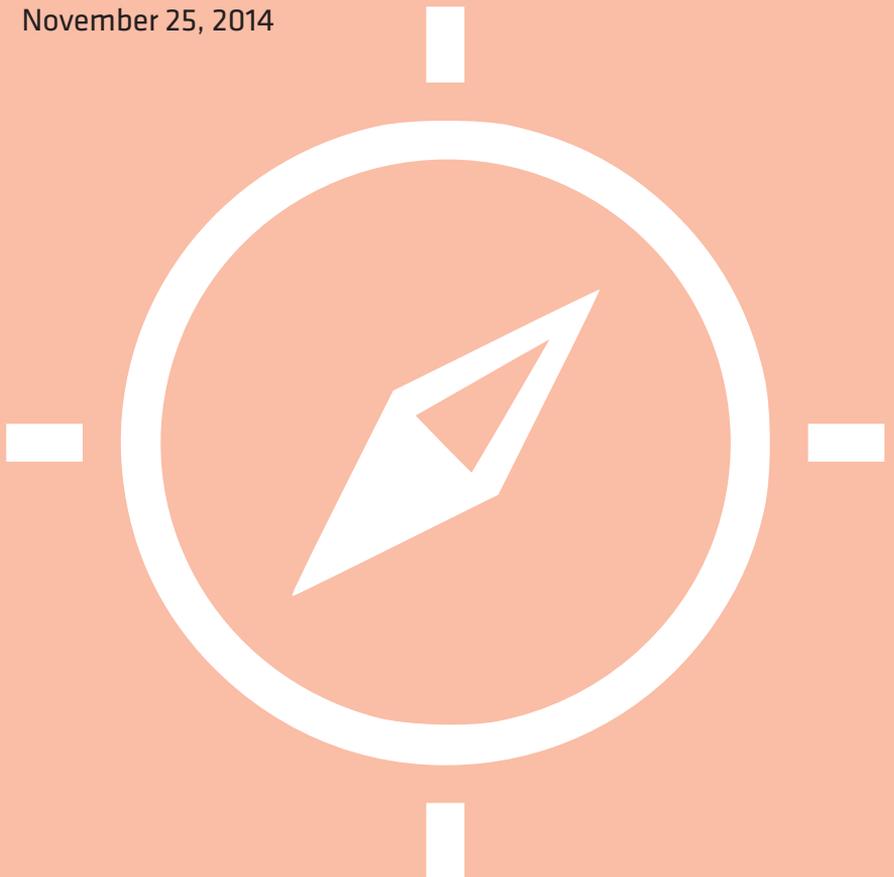




**RED**  
**ELÉCTRICA**  
CORPORACIÓN

# Corporate Governance POLICY

November 25, 2014





## I- Justification

Article 22 of the Company By-laws of Red Eléctrica Corporación (hereinafter, Red Eléctrica or the Company) provides that the Board of Directors will approve its internal Regulations in order to ensure its utmost professionalism and efficiency, encouraging the active participation of all its members and putting the corporate interest and that of the shareholders before its own, in compliance with applicable regulations, the By-laws and principles of good corporate governance.

Article 6.3 of the Board Regulations (institutional guidelines) states that the Board will adopt the necessary measures to ensure that the Company, in its relations with interest groups, complies with laws and regulations, its obligations and contracts, the best practices in those sectors and territories where it operates, including any other additional social responsibility and good corporate governance principles it has voluntarily accepted.

Article 2 of the Board Regulations (interpretation criteria) refers to applicable regulatory provisions and the By-laws, as well as good corporate governance recommendations for listed companies.

Furthermore, when determining the Board's non-delegable responsibilities, to particularly include the general policies and strategies followed by the Company and the Group- requiring the Board of Directors' direct approval- Article 5.5.a).iv) of the Board Regulations includes corporate governance policy. This document will describe Red Eléctrica Corporación's Corporate Governance Policy.

In May 2013, the Board of Directors approved a new Code of Ethics for the Red Eléctrica Group (the third since its incorporation), in order to reflect its corporate identity and commitments undertaken in the business world and with various interest groups affected by the Company's activities.

Further to the foregoing, this Corporate Governance Policy should be applied and interpreted, in any case, according to the Company's various corporate governance rules, to particularly include corporate values, behavioural principles and guidelines established in the Group's Code of Ethics.

## II-Objective

The Code of Ethics of the Red Eléctrica Group provides the corporate values governing its relations with various interest groups, pursuing achievement of its strategies and sustainable maximization of the Company's value. These values- based on reliability, responsibility, respect, leadership and creativity, and environmental awareness- are reflected in the principles that govern the Group's corporate governance policy. This Policy will provide a summary of said range of principles, evidencing not only the Company's compliance with



current 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 in 1999. Underlying these principles is a clear long-term aim for permanence, as part of Red Eléctrica's own corporate governance policy, without prejudice to its continuous updating according to future commitments. This Policy intends to align the Company's interests with those of its shareholders and other interest groups, by safeguarding and encouraging a commonly shared value- which incorporates economic, social, environment and good governance criteria- not only to promote the Company's sustainability, solvency and good reputation vis-à-vis its shareholders and other interest groups, but also to reinforce trust, stability, progress and social/economic development in society.

### III-Principles

Below we describe the founding principles of Red Eléctrica's Corporate Governance Policy, which act as a reference for the Company in its relations with all interest groups.

- To consolidate, develop and encourage symmetrical devices for dialogue and commitment with shareholders, investors and the main interest groups, in order to improve relations, strengthen commitment and consolidate their trust.
- To encourage the Company shareholders' informed participation at General Shareholders Meetings.
- To adopt the necessary measures in order to ensure that all shareholders are able to adequately exercise their rights at General Meetings.
- To carry out the necessary control and supervision in the Company's most critical and relevant areas, by the Board of Directors directly undertaking responsibilities as non-delegable powers foreseen in its internal regulations.
- To preserve an adequate equilibrium and proportional powers in the Board of Directors' structure and composition, by adopting the necessary measures to be able to act with a single purpose in an unbiased manner, pursuing the corporate interest and that of the shareholders, as well as the Company's sustainability.
- To ensure that appropriate procedures exist for the selection of directors, guaranteeing a reasonable equilibrium and diversity within the Board of Directors when performing its task.
- To consolidate its commitment with a range of knowledge, experience and gender in the composition of the Board of Directors and its Commissions.
- To establish adequate ways in which to define directors' duties and responsibilities, enabling the disclosure and resolution of any potential conflicts of interest between the directors and the Company.
- To consolidate the Board of Directors' remuneration policy based on moderation, its



effective dedication and alignment of the Company's long-term strategies and interests with those of its shareholders.

- To consolidate the practice of requiring the General Shareholders Meeting's approval of the Board of Directors' remuneration policy, annual remuneration and annual remuneration report.
- To ensure the quality and efficiency of the Board of Directors' operation and performance, including the Board Chairman, the Senior Executive and Board Commissions, through the execution of annual appraisals in which the support and collaboration of independent external advisors shall be sought.
- To enable directors' continuous training in the Company's various areas and activities, through an annual knowledge and information programme.
- To guarantee the orderly succession of the Company's Senior Executive, in order to ensure business continuity and sustainability.
- To establish the necessary devices and instruments to ensure that the Company is able to locate, analyse and adopt, as appropriate, the best practice, principles and recommendations in good corporate governance matters, further to the Company's principle of activity excellence.
- To guarantee transparency and top quality in all information, in such a way that the Company's public information is presented in a clear, comprehensive, simple, orderly and comprehensible manner to the various interest groups.
- To permanently review, update and improve the content and structure of the corporate website, under international standards.
- To encourage the awareness of the principles and values underlying Corporate Governance Policy, both internally in the company itself, and externally by all its interest groups.

## IV. Red Eléctrica's practice in corporate governance matters

Once the principles have been analyzed, the practice currently followed by the Company, or which it is committed to adopt following such principles, constituting, all together, Red Eléctrica's Corporate Governance Policy, is presented.

### IV.1 In relation to the company's shareholders

#### • Engagement.

Further to the **principle to consolidate, develop and encourage symmetrical devices for dialogue and commitment with shareholders and investors**, Red Eléctrica tries to cover the



needs of all institutional shareholders, given their prevalence in the Company's shareholding, and of any relevant proxy advisors and other interest groups, in order to improve relations, increase engagement and strengthen their trust, without prejudice to the guarantees and equal treatment enjoyed by the other shareholders.

Moreover, based on the foregoing principle, Red Eléctrica has undertaken to provide homogenous and systematized information to its shareholders, reflecting the environmental social and good corporate governance objectives included in the Company's corporate interest.

- **General Shareholders Meeting.**

Further to the **principle to encourage shareholders' informed participation at General Shareholders Meetings**, the Company publishes documentation and makes it available to its shareholders sufficiently in advance, on the various points included in General Meeting agendas.

Moreover, further to the **principle to ensure that all shareholders are able to adequately exercise their rights at General Meetings**, the Company implements devices and adopts measures to facilitate the performance of any tasks and competences entrusted at all times to the General Shareholders Meeting by law and according to best corporate governance practice.

The Company also undertakes to consolidate the practice of conducting an external audit on the management processes of its General Shareholders Meetings, with the possibility of extending its scope to other fields of corporate governance, to the benefit of shareholder guarantees and legal certainty.

## IV.II In relation to the board of directors and its commissions

- **Basic tasks and operation of the Board.**

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

- To approve basic action guidelines and general policies/strategies of the Company and Group, to include the strategic or business plan of the Company and Group, its investment and financing policy, corporate governance policy, corporate responsibility policy, remuneration policy and appraisal of senior executive performance, etc.
- Furthermore, to approve a policy to control and manage the main risks faced by the Company and the Group, and to periodically supervise any internal control, prevention and information systems.
- To effectively supervise the management team.



In order to perform its direct responsibilities, as well as other tasks and duties, the Board of Directors regularly meets once a month and at least once a quarter. Furthermore, at the Chairman's request, it may convene as many times this is deemed appropriate for the running of the Company.

Likewise, it will meet whenever the Coordinating Independent Director or three directors request so.

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

- **Balance of power within the Board of Directors' structure and composition.**

The Board performs its tasks further to the **principle to act with a single purpose in an unbiased manner, pursuing the corporate interest and that of the shareholders, as well as the Company's sustainability**. To do this, it is necessary to preserve an adequate and proportional balance powers within the Board's composition, subject to the following commitments:

- **Independent Directors**

Red Eléctrica undertakes to include an effective majority of independent directors on the Board of Directors, in any case proportional to the structure of its capital stock.

Each year, the independent directors will provide the Company with a declaration of independence, following the standard form approved by the Board of Directors.

- **Board Commissions: Effective majority of independent directors**

This principle, derived from the principle of majority independent directors within the Board, will apply to all Board Commissions irrespective of their legal/regulatory denomination and type.

- **Corporate Responsibility and Governance Commission:**

The Company has undertaken to establish a Corporate Responsibility and Governance Commission, consisting of external directors only, of whom the majority and Chairman will be independent directors.

The basic responsibilities entrusted to this Commission include matters relating to the appointment and removal of directors, the remuneration policy applied to the Board of Directors and Senior Management, fulfilment of directors' duties, management of the Board's evaluation process, as well as the information, supervision and proposal duties relating to corporate governance and corporate responsibility policy.

- **Auditing Commission:**

The Company has undertaken to establish an Auditing Commission, consisting of



external directors only, all designated according to their knowledge and experience in accounting, auditing and risk management matters; the majority of its members and its Chairman will be independent directors.

Amongst other duties, the Commission will supervise the economic-financial data of the Red Eléctrica Group and of any internal control and risk management systems, the relations with external auditors (to supervise the performance of their tasks) and ensured compliance with Internal Regulations on Stock Market Conduct and the Plan to Prevent Corporate Criminal Risks applied by the Red Eléctrica Group.

#### - Coordinating Independent Director

Within the Board of Directors' structure, Red Eléctrica has included the post of the Coordinating Independent Director, which is approved by the General Shareholders Meeting and regulated in its corporate rules. The Coordinating Independent Director is entrusted with coordinating any possible common positions adopted by independent directors and to act as the spokesman for such common positions before the Board Chairman, the Board itself and its Commissions. The Company has undertaken to effectively develop the tasks and responsibilities inherent to this post. Among the tasks entrusted to the Coordinating Independent Director, it is included the calling of the Board of Directors' meetings for duly justified reasons, if this request has not been upheld by the Board Chairman.

#### - Non-delegable powers of the Board of Directors

In its Board Regulations, Red Eléctrica has undertaken to keep a broad range of direct responsibilities reserved to the Board of Directors and, therefore, non-delegable.

- Furthermore, the Company has undertaken to permanently analyse **other possible counterweight measures** in order to ensure an adequate balance of powers and responsibilities within the Board, particularly when the post of the Board Chairman is held by an executive director.

#### • Appointment of directors

Red Eléctrica applies the **principle of ensuring that appropriate procedure exist for the selection of directors, guaranteeing a reasonable equilibrium and diversity within the Board of Directors when performing its task**. Consequently, when evaluating any candidates participating in the selection process, it takes into account the competences, experience, professionalism, suitability, impartiality, knowledge, qualities, abilities and availability of Board members at all times; the Corporate Responsibility and Governance Commission plays a relevant role in this process.

#### • Directors' responsibilities

Further to the principle requiring the Company to **establish adequate ways in which to define directors' duties and responsibilities** in general, and their duties of diligence and



loyalty in particular, full internal regulations have been established pursuant to the law in force at all times.

The duties of directors, foreseen in these internal regulations, include the following:

- **Duty of diligent management:** all directors must act with the diligence of an orderly entrepreneur, attending all meetings of the Board of Directors and its Commissions, duly informed and prepared, and actively participating in all discussions.
- **Duty of loyalty:** all directors will perform their task as loyal representatives, upholding the corporate interest.
- **Duty of secrecy** with respect to confidential information: all directors will keep the confidentiality of any information, data reports or background details that become known as a result of exercising their task, even after they are no longer in office.
- **Duty of information:** all directors will inform the Company of the stake held in its capital stock, including any stock options or derivatives referring to the share value, either directly or through companies where the director holds a relevant stake.

- **Conflicts of interest.**

Further to the **principle to enable the disclosure and resolution of any potential conflicts of interest between the directors and the Company**, certain control measures and steps are taken by the Company to prevent a potentially affected director from participating in matters where the director may hold a direct or indirect personal interest, in which case the corporate interest will prevail.

- **Remuneration policy of the Board of Directors.**

The Company applies the **principle of consolidating the Board of Directors' remuneration policy based on moderation, its effective dedication and alignment of the Company's long-term strategies and interests with those of its shareholders** and other interest groups; this remuneration policy acts as an incentive, without its amount conditioning a director's impartiality. Consequently, comparative analyses are conducted with other comparable companies and permanent contact is maintained with shareholders and proxy advisors.

Red Eléctrica has undertaken to permanently review the Board of Directors' remuneration structure in order to constantly adjust to international corporate governance standards and the needs of Company shareholders, insofar as possible.

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

- **Diversity on the Board of Directors.**

The Company applies the **principle of encouraging a range of knowledge, experience and**



**gender in the composition of the Board of Directors and its Commissions**, as an essential factor allowing it to achieve its objectives from a plural and balanced perspective.

- **Evaluation of the Board of Directors.**

For several years now, Red Eléctrica has been applying the **principle of annually evaluating the operation and performance of the Board of Directors, Board Chairman and Senior Executive of the Company and Board Commissions, with the support of independent external advisors**. This process is managed by the Corporate Responsibility and Governance Commission, along with the Coordinating Independent Director, and a summary of the main conclusions is voluntarily published in the Annual Corporate Governance Report.

- **Directors' knowledge and information plan.**

Further to the **principle to enable directors' continuous training in the Company's various areas and activities**, the Company has undertaken to keep an updated annual plan for directors' knowledge and information, enabling them to expand on the Company's various areas and activities, to particularly include those that are predominantly technical. For several years now, informative meetings are held prior to ordinary Board meetings.

- **Senior Executive succession plan.**

Further to the **principle to guarantee the orderly succession of the Company's Senior Executive, ensuring long-term business continuity and sustainability**, the Company has undertaken to arrange an orderly succession of its Senior Executive. To do this, the Company's senior executive succession plan is periodically updated in order to reduce the risks arising from an unexpected and disorganised succession as much as possible.

- **Board of Directors Secretary.**

Further to the principle undertaken by Red Eléctrica **to establish the necessary devices and instruments to ensure that the Company is able to locate, analyse and adopt, as appropriate, the best practice, principles and recommendations in good corporate governance matters**, the Board of Directors Secretary, following the duties entrusted by the Company By-laws and Board Regulations, provides the Board of Directors and its Commissions with the necessary devices and instruments to locate, analyse and propose, if any, the adoption of best practices, principles and recommendations in good corporate governance matters, allowing the Company to supervise performance in this practice and to duly inform its interest groups.

#### IV.III In relation to the principles of transparency in information and dissemination of corporate governance policy

- One of the principles is to **guarantee transparency and top quality in all information, in such a way that the Company's public information is presented in a clear, comprehensive, simple, orderly and comprehensible manner to various interest groups**. In particular, the



Company has undertaken the following in relation to its annual corporate information:

- To approve an **Annual Corporate Governance Report**, not only meeting regulatory requirements as to structure and content, but also relevant international recommendations in corporate governance matters.
- To draw up an **Annual Remuneration Report and Remuneration Policy for the Board**, based on the main structural and content requirements foreseen in relevant international standards, which will be presented to the Ordinary General Shareholders Meeting for approval.
- To consolidate the practice of drawing up an **Annual Report on Gender Diversity on the Board of Directors** and the company itself, updating Red Eléctrica Group's situation in this field, describing any progress and improvement and indicating the most important forthcoming actions; and, to the extent it is possible, information will be included both on the Red Eléctrica Group and on other listed companies and/or members of the electricity sector.
- To closely follow any guidelines foreseen by the **International Integrated Reporting Council (IIRC)** and by any other competent bodies on the matter, enabling the Company, at the right time, to approve and publish its Integrated Report according to best international practice.

If possible and whenever deemed appropriate, annual reports may be externally audited by consultants, advisors and specialized auditors. The Company may also consider the possibility of disseminating the outcome of these evaluations.

- In light of the **principle to permanently review, update and improve the content and structure of the corporate website**, international standards are taken into account in order to incorporate the most relevant information for the interest groups in the corporate website and to improve its accessibility, operation and information quality.
- Further to the principle to necessarily **encourage awareness of the principles and values underlying Corporate Governance Policy, both internally in the company itself, and externally through all its interest groups**, Red Eléctrica will take any steps it deems appropriate or necessary to effectively promote this awareness.