



**RED ELÉCTRICA**  
CORPORACIÓN

**Annual Corporate Governance Report 2013**

<b>Preamble .....</b>	<b>3</b>
<b><u>Title I. History of Corporate Governance at Red Eléctrica .....</u></b>	<b>7</b>
<b><u>Title II. The Legal Framework applied at Red Eléctrica .....</u></b>	<b>18</b>
<b>Chapter II. External Framework .....</b>	<b>18</b>
<b>Chapter II. Internal Framework.....</b>	<b>21</b>
- The Corporate Bylaws	
- The Regulations of the General Shareholders' Meeting	
- The Regulations of the Board of Directors	
- Company Chairman Succession Plan	
- Internal Code of Conduct on the Securities Market	
- Procedure for proxies, voting and information by remote means at the General Shareholders' Meeting	
- The Operating Rules of the Electronic Shareholder Forum	
- The Code of Ethics	
<b><u>Title III. Main corporate governance aspects and principles at Red Eléctrica.....</u></b>	<b>28</b>
<b><u>Chapter I. Basic Corporate Governance principles at Red Eléctrica.....</u></b>	<b>28</b>
- The Board of Directors	
- The lead independent director	
- The Board Committees	
- Remuneration Policy of the Board of Directors and the Executive Director	
- Relations with shareholders and institutional investors	
- Independence in relations with the External Auditor	
<b>Chapter II. Shareholder Structure.....</b>	<b>34</b>
- Corporate website	
<b>Chapter III. The General Shareholders' Meeting.....</b>	<b>36</b>
- Right to information	
- Right to attend	
- Right to participate and new technologies	
<b>Chapter IV. Board of Directors.....</b>	<b>42</b>
- Organization, powers and composition	
- Professional profiles of the directors	
- Attendance at meetings of the Board of Directors and Board Committees	
- Chairman of the Board and chief executive	
- Responsibilities and duties of the directors	
- Duty of loyalty	
- Use of the name of the Company and status as a director	
- Ban on using business opportunities	
- Conflicts of interest	
- Prohibition on Competition	
- Duty of secrecy	

- Non-public information
- Indirect transactions
- Resignations
- Directors' Portal
- Evaluation of the Board
- Remuneration policy of the Board

<b>Chapter V. Committees of the Board of Directors.....</b>	<b>66</b>
- The Audit Committee	
- The Corporate Responsibility and Governance Committee	
<b>Chapter VI. The lead independent director.....</b>	<b>76</b>
- Introduction	
- Functions	
<b>Chapter VII. Senior Management.....</b>	<b>77</b>
<b>Chapter VIII. Risk policy and internal control systems.....</b>	<b>78</b>
- Scope of the Company's Risk Management System	
- Bodies of the Company responsible for the development and implementation of the Risk Management System	
- Major risks that may affect the attainment of business targets	
- Risk tolerance level	
- Risks materialized during 2013.	
- Monitoring and response plans for the major risks of the company.	
<b>Chapter IX. Related-Party Transactions.....</b>	<b>89</b>
<b><u>Title IV. Fiscal year 2013 at Red Eléctrica.....</u></b>	<b>89</b>
<b>Chapter I. Main corporate resolutions.....</b>	<b>89</b>
<b>Chapter II. Main Awards and Recognition.....</b>	<b>91</b>
<b>Chapter III. Material Events Disclosed to Markets.....</b>	<b>93</b>
<b>Chapter IV. Annual Reports on Activities of the Committees of the Board of Directors .....</b>	<b>96</b>
- Report on activities of the Corporate Responsibility and Governance Committee for the year 2013	
- Report on activities of the Audit Committee for year 2013	
<b><u>Title V. The Corporate Governance Outlook in Red Eléctrica.....</u></b>	<b>109</b>
<b><u>OFFICIAL ANNEX: MODEL OF ANNEX I TO CNMV CIRCULAR 5/2013, OF 12 JUNE, OF THE SPANISH SECURITIES MARKET COMMISSION (CNMV)...</u></b>	<b>111</b>

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

YEAR 2013<sup>1</sup>

## PREAMBLE

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

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Signed: José Folgado Blanco

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

### **1999**

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

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

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

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

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

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

4 independent directors (31% of the Board).

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

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

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

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

### **2000**

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

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

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

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

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

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

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

### **2001**

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

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

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

### **2002**

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

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

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

### **2003**

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

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

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

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

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

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

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

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

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

## 2004

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

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

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

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

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

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

## 2005

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

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

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

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

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

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

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

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

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

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

## 2006

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

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

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

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

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

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

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

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

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

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

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

## **2007**

Adoption, on a voluntary basis, of the Code of Ethics of Red Eléctrica Group, which reflects the corporate identity and commitments made to the business community and to the various stakeholders affected by the activities of the Red Eléctrica Group.

Appointment of an Ethics Manager, tasked with the administration of the system for the detection and handling of breaches and complaints, and the monitoring and development of the Code of Ethics.

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

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

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

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

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

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

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

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

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

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

## **2008**

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

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

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

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

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

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

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

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

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

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

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

We expanded the information on Social Responsibility in the ACGR.

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

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

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

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

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

## 2009

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

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

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

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

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

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

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

Initial contacts and telephone conferences with the proxy advisors began.

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

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

## **2010**

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

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

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

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

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

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

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

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

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

## 2011

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **2012**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **2013**

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

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

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

In accordance with the requirements of the applicable legislation (initially under Article 116 of the Securities Market Law (the “LMV”), introduced by Law 26/2003, known as the Transparency Law, and the Regulations of the Board of Directors (Article 46)), the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A. has been complying, in its capacity as a listed company, with the obligation to prepare and approve an ACGR, which must be notified to the CNMV as a material event and published on the Company’s website, and which is attached as an Annex to the Company’s annual management report.

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

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

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

The legal framework affecting the various aspects of the Corporate Governance of Spanish Public Limited Companies has undergone many changes in the last four years, and this has had the immediate effect of causing a change in the primary internal rules of the Company in order to adapt them to the new legislation.

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

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

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

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

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

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

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

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

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

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

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

The internal rules by which RED ELÉCTRICA CORPORACIÓN, S.A. is governed are subject to continuous modification in order to incorporate Corporate Governance best practices into the Company and to achieve greater transparency in the information provided to investors. We now summarise the main changes in the area of Corporate Governance that have taken place in the Company's internal rules over recent years:

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

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

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

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

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

- The Corporate Bylaws.
- The Regulations of the Shareholders' Meeting.
- The Regulations of the Board of Directors.
- Company Chairman Succession Plan.
- The Internal Code of Conduct on the Securities Market
- The Procedure for proxies, voting and information by remote means at the General Shareholders' Meeting (relating to the 2013 Annual General Shareholders' Meeting).
- The Operating Rules of the Electronic Shareholder Forum.
- The Code of Ethics.
  
- **The Corporate Bylaws**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As indicated in Article 22 of the Corporate Bylaws, the main purpose of the Regulations of the Board of Directors is to establish the basic rules on the organisation and functioning of the Board of Directors and its Committees, the rules of conduct for its members and the system of supervision and control of the Board of Directors and its Committees, with a view to ensuring the highest standards of professionalism and efficacy in their actions. This is achieved by encouraging the active participation of its directors, placing the interests of the Company and of its shareholders above their own interests, while upholding the law, the Corporate Bylaws and Corporate Governance principles.

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

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

#### ➤ **Company Chairman Succession Plan.**

At a meeting held on 27 October 2011, the Board of Directors approved the Succession Plan for the Company Chairman, following the trend of an increasingly common worldwide Corporate Governance practice, involving the preparation and approval by listed companies of succession plans for their CEO or most senior executive, in order to minimise the impact of the handover on the organisation, and aiming to determine a model profile for the candidates and ensure the continuity of the business, thereby reducing as far as possible the possible risks or negative effects of the appointment of a new chairman, until he or she has fully settled in to the role. The Plan establishes a succession procedure that is split into several phases, assigning functions to the managing bodies involved; all with a view to creating an environment in which the appointment of a new chairman may be carried out in an orderly and efficient manner that does not affect the Company's ordinary operations.

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

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

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

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

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

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

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

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

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

➤ **The Code of Ethics.**

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

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

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

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

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

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

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

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

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

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

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

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

- reliability

- accountability
- environmental awareness
- leadership and creativity
- respect

The newly introduced commitments relate to:

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

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

The 2012 Annual Report of the Ethics Manager was approved on 25 July 2013. The Report describes the actions taken by the Company to raise awareness of the importance of the Code of Ethics and of the procedure for dealing with queries and complaints. The queries received are also listed, the majority of which related to the way in which the commitments stated in the Code should be interpreted in specific situations. Mention is also made of the complaints received and handled by the Ethics Manager, as well as their resolution.

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

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

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

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

##### **• The Board of Directors:**

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

- The essential responsibilities for management of the Company, detailed in Article 5 of the Regulations of the Board of Directors, are expressly reserved for the Board of Directors in plenary session and cannot be delegated (a reservation that has been extended in 2013 on the amendment of the Regulations of the Board of Directors).
- The responsibilities that cannot be delegated cannot be carried out by the executive director or the Board Committees.
- The Board of Directors conducts an annual evaluation of its own functioning, of that of the Board Committees and of the Board Chairman, and periodically solicits the advice of an external specialist, as has been the case in all the processes conducted since 2011.
- In 2011, the Board of Directors approved a Succession Plan for the office of Company Chairman to ensure, when the time comes, an orderly and well-planned handover without an adverse impact on the corporate interest or on the company's business, which eased the 2012 handover.
- The Board of Directors has taken on board the best practice recommendations in the area of gender diversity. Four (36.4%) of its members, representing 40% of the Company's external directors, are women. This puts the Company in a leading position among the IBEX 35 companies. The Board of Directors prepares and approves an annual gender diversity report, which this year has been made available on the Company's website.
- The Board Chairman is also the chief executive of the Company, by express decision of the Board of Directors and of the General Shareholders' Meeting, pursuant to Article 25 of the Corporate Bylaws. Nevertheless, following the amendment of the Bylaws passed in 2013, the said Bylaws stipulate that one or more CEOs may be appointed.
- The powers and responsibilities of the chief executive are limited by:
  - The legal reservation of non-delegable responsibilities to the Board of Directors.
  - The effective control exercised by the Board of Directors, at each monthly meeting, over the ordinary activities of the executive director.
  - The immediate effective control exercised by the Board of Directors, at each monthly meeting, over any extraordinary or urgent measures taken by the executive director.
  - The functions and responsibilities attributed to the Board Committees in the Corporate Bylaws and in the Regulations of the Board of Directors.
  - The responsibilities of the lead independent director.
- A high percentage of attendance and dedication to the exercise of their responsibilities on the part of the directors.
- Use of new technologies to facilitate the operation of the Board and provide directors with information and documentation: The Directors' Portal, subject to review and upgrade in 2013/2014.

- **The lead independent director**

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

- **The Board Committees:**

- Committees formed by the Board of Directors, with a highly technical profile, to support it in the performance of its responsibilities, designed to achieve greater efficiency and transparency.
- Comprising qualified professionals occupying important posts in other institutions and/or companies.
- These consist entirely of external directors, following the exit of the executive director from the Corporate Responsibility and Governance Committee.
- The Committees are now formed of three members, two of whom are independent directors. Financial year 2013 saw the formal adaptation, under the Regulations of the Board of Directors, of the composition of the Committees to the demands of investors, in order to strengthen their independence. It introduced the requirement that there be a majority of independent directors on both Committees.
- Chaired by independent directors, as envisaged in the Corporate Bylaws and the Regulations of the Board of Directors, which are limited to three years, after which term they may not be re-elected until at least one year has elapsed from the date of their termination.
- No directors belong to both Committees, which ensures their total independence.
- The Committees hold regular monthly meetings and are genuine specialist technical bodies that provide immense added value to the Board.

- The term of office of all Committee members is three years; members may be re-elected.
- The functions and responsibilities of the Committees are established in the Corporate Bylaws and in the Regulations of the Board of Directors, which confer a stable legal framework thereto.

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

- There is total transparency and openness in the breakdown of each Director's individual remuneration.
- The maximum limit of the overall annual remuneration for the Board of Directors is established in Article 20 of the Corporate Bylaws (1.5% of the Company's net annual profit approved by the General Shareholders' Meeting).
- The Board remuneration and the Board Remuneration Policy Report are voluntarily submitted for approval (binding vote) to the General Shareholders' Meeting as two separate and independent items on the Agenda.
- In 2013, the total remuneration of the Board of Directors was divided into two different components, increasing the weight of the fixed remuneration at the expense of the excessive weighting of the variable remuneration:
  - Fixed (two thirds): Annual Fixed Remuneration and Allowances for attending Board and Board Committee meetings.
  - Variable (one third): Amount linked to the attainment of the targets and strategies of the Company, previously established by the Board of Directors, at the proposal of the Corporate Responsibility and Governance Committee, and approved by the General Shareholders' Meeting.

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

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

- The other principles on which the Board remuneration policy is based are:
  - Balance and Moderation.
  - Link to actual dedication.
  - Aligned with the long-term interests of both the Company and the Shareholders, aiming to gradually incorporate the criteria and parameters required under international standards.
  - Acting as an incentive, but without conditioning the Directors' independence (particularly in the case of independent directors).
  - Transparency. This includes the remuneration structures and elements most demanded by the investors, and aims to further the objective of achieving maximum transparency.
  - Alignment with general practices at listed companies.
- The remuneration of the chief executive is divided into a fixed part and a variable part.
- The amount of the remuneration of the chief executive is less than that of comparable companies, according to an international study conducted by the Company in 2013; however, in 2012 it decreased by around 5% compared to 2011, and in 2013 and 2014 it remains unchanged, as explained in the annual report on remuneration and remuneration policy of the Board of the Company.
- The chief executive's variable annual remuneration for the executive role is limited to 50% of his fixed annual remuneration as chief executive.
- The annual variable remuneration of the chief executive also responds to strategies, objectives and criteria established in the Strategic Plan, and is determined by the Corporate Responsibility and Governance Committee, after the relevant assessment at year end of the quantifiable and predetermined targets of the Committee.
- Under the Special 25th Anniversary Plan 2009-2013, in 2009 a long-term variable remuneration was implemented for the chief executive linked to the achievement of certain strategies and predetermined targets set by the Corporate Responsibility and Governance Committee. The said Special Plan ended in 2013 and the Corporate Responsibility and Governance Committee has performed the relevant assessment of the targets (the details of the evaluation of his achievement of the predetermined targets have been included in the Annual Report on remuneration and remuneration policy of the Board). In 2014 different alternatives are being analyzed for the long-term remuneration of the chief executive and senior executives, taking into account the social, economic, and legal aspects of Corporate Governance and other aspects thereof, although the analysis phase is still open since it believes that it is necessary to study in greater detail the various possible multi-annual remuneration models before taking any decision, all in tandem with the review of the Company's Strategic Plan.

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

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

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

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

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

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

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

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

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

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

• **Independence of the External Auditor:**

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

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

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

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

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

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

At 31 December 2013, the Sociedad Estatal de Participaciones Industriales or "SEPI" directly owned a significant stake in the Company, holding 27,054,000 shares representing 20% of the capital.

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

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

Within the free float, worthy of note is the high percentage of foreign shareholders, in particular, of institutional investors, who at 31 December 2012, represented almost 70% of the share capital (of which around 60% are located in the UK and USA), which explains the importance that the Board of Directors attaches to international Corporate Governance practices and recommendations.

The entry into force of Law 17/2007, of 4 July, introduced various changes affecting the Company's shareholders. These amendments had, among other aims, that of guaranteeing the independence of the Company vis-a-vis all other electricity sector activities and agents, given that the activities developed by Red Eléctrica (transport of electricity and operation of the electricity system) are considered by legislators to be an essential service. Royal Decree-Law 13/2012, of 30 March, transposing a number of directives, among them, Directive 2009/72, of 13 July, which stipulates the mandatory independence of Distributors and Operators of European electricity systems, endorses the legal limitations on shareholdings and political rights applicable to the Company's shareholders, incorporating a number of additional restrictions on companies that perform generation or marketing functions. Royal Decree-Law 13/2012, of 30 March, amended the second paragraph of the twenty-third additional provision and Article 34.1 of Law 54/1997, of 27 November. An additional provision that remains in effect pursuant to the express stipulation of the repealing provision of Law 24/2013, of 26 December, on the Electricity Sector.

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

- Any individual or legal entity may hold shares in the Company, provided that the sum of their direct and indirect interests in the Company's capital does not exceed 5% of the capital and they do not hold more than three percent of the voting rights. These shares may not be pooled for any purpose whatsoever.
- Parties that engage in activities in the electricity industry, and those individuals or legal entities that directly or indirectly hold more than 5% of their capital, may not exercise more than 1% of the voting rights.
- The special regime for SEPI is maintained, whereby it must hold at least ten percent (10%) of the share capital in all cases.

These legal provisions on the general and special shareholding regime are incorporated in Articles 5 and 14 and the sole additional provision of the Corporate Bylaws, and in Article 6.3 of the Regulations of the Shareholders' Meeting.

Law 1/2012, of 22 June 2012, on the simplification of the reporting and documentation obligations for mergers and spin-offs of corporate enterprises, redrafts certain aspects of the Corporate Enterprises Law (article 257), affecting, among others, the possibility of introducing bylaw restrictions on voting rights, after these were expressly prohibited for listed companies by Law 12/2010, of 30 June. This does not affect the Company, as it sets out a general regime for listed companies, whereas the Company is subject to the special limitations set out in the aforementioned Law 54/1997, of 27 November.

- **Corporate website.**

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

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

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

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

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

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

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

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

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

- Approving the Company's individual and consolidated financial statements, its management by the Board of Directors, and the proposed appropriation of profits.
- Appointing and removing Directors, ratifying, as necessary, their appointment by co-option, and appointing and reappointing the auditors.
- Approving programs or authorizing transactions involving treasury stock.
- Approving the establishment of remuneration systems linked to the share price for Directors and, as the case may be, the management team.
- Resolving to issue debentures, increase or reduce share capital, change the legal form, merge, spin off or wind up the Company, and make any amendment to the Corporate Bylaws.
- Authorizing the Board of Directors to perform a capital increase pursuant to the provisions of the Corporate Enterprises Law.
- Approving operation whose effect would be equivalent to the modification of the Company's corporate purpose.

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

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

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

The Annual General Meeting of 19 April 2012, approved an amendment to the Bylaws and to the Regulations of the General Shareholders' Meeting, which sought to adapt the legal regime of the Shareholders' Meeting to Law 25/2011 of 1 August, partially reforming the Corporate Enterprises Law, and incorporating Directive 2007/36/EC, of the European Parliament and of the Council, of 11 July, on the exercise of certain rights by shareholders of listed companies.

The aforementioned Law 25/2011, of 1 August, introduced a number of changes relating to the website content of listed companies; in particular, as regards the information that must be published on the website when calling a General Shareholders' Meeting. Despite the fact that, in large part, such information was already published on the website of the Company, the Annual General Shareholders' Meeting held on 19 April 2012, approved the modification of the Regulations of the Shareholders' Meeting to incorporate the content required under the Law into the appropriate Articles.

Law 25/2011 granted greater importance to the corporate website, introducing a new Article 11 bis into the Corporate Enterprises Law, which regulates the electronic headquarters or corporate website. The Law also incorporates an obligation under Article 516 of the Corporate Enterprises Law for listed companies to use the website to disseminate the call notice of the Shareholders' Meeting, something which RED ELÉCTRICA CORPORACIÓN, S.A. has been doing for a number of years.

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

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

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

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

- Call notices are always posted more than one month in advance, which is the established statutory period.
- All documentation submitted for approval by the Shareholders' Meeting and especially the financial statements and the Annual Corporate Governance Report, are made available to all shareholders at the corporate headquarters, on the website and at the Shareholder Information Office.
- An entire section of the Agenda of the Shareholders' Meeting is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.
- The annual reports on the activities of the Audit Committee and of the Corporate Responsibility and Governance Committee are made available to all shareholders in the Annual Corporate Governance Report.

- A Shareholder Bulletin is published quarterly, containing the main news regarding the Company.
- The Chairman of the Audit Committee is available to all shareholders during Shareholders' Meetings to deal with any matters falling within his jurisdiction that may arise, communicating this to the shareholders during the Shareholders' Meeting.
- The items included on the agenda for the Shareholders' Meeting are provided in as much detail as possible.
- Separate voting on each item is permitted, including remote voting, with a view to giving shareholders full decision-making freedom and independence in respect of each item submitted to vote.
- The Shareholder Information Office specifically deals with requests made by Company shareholders. Shareholders may also submit questions in writing regarding the information available to the public or notified to the competent authorities and make inquiries through the Shareholder Information Office.
- In 2012, the review of management processes and the results of the voting at the Annual General Shareholders' Meeting, was commissioned by the Company to an independent consultant, Deloitte, which in its final report indicated certain specific strengths of the Company while also making certain suggestions for improvement and recommendations to be followed.
- In 2013, Deloitte performed an audit of the management processes of the Annual General Shareholders' Meeting, to improve the guarantee of shareholder rights at the Meeting. The auditor's reports were published on the website on the same day as the holding of the General Shareholders' Meeting.

Regarding the rights of shareholders, these are regulated in Article 15 of the Bylaws, which refers specifically to the right to information and attendance at the General Shareholders' Meeting, and in articles 6 to 10 of the Regulations of the Board of Directors. Specifically, the rights are as follows:

- **Right to information**

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

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

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

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

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

- The call notice of the Shareholders' Meeting, containing the proposed resolutions and the corresponding reports by the Board of Directors.
- The Company's individual and consolidated financial statements and the proposed appropriation of profit for the year.
- The Company's individual and consolidated management reports for the year.
- The audit reports relating to the Company's individual and consolidated financial statements.
- The Annual Corporate Governance Report.
- The Corporate Responsibility Report.
- The Annual Report on Remunerations and Remuneration Policy of the Board of Directors.
- The environmental report.
- Any other report whose inclusion is obligatory or may be determined by the Board of Directors.

- **Right to attend**

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

To this effect, Article 15 of the Corporate Bylaws and Article 10 of the Regulations of the Shareholders' Meeting provide that shareholders with the right to attend may be represented at the Shareholders' Meeting by any other person, in the manner established in the Corporate Enterprises Law. The condition that the proxy must be a Company shareholder has been withdrawn, following the approval of the adaptation of its content to Law 25/2011, of 1 August, by the General Shareholders' Meeting held on 19 April 2012.

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

Company directors and executives are required to attend General Shareholders' Meetings.

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

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

- **Right to participate and new technologies**

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

In line with the most well-known recommendations in this area, the Regulations of the Shareholders' Meeting are in keeping with the regime established by Law 26/2003, of 17 July 2003, regarding the development of shareholder rights and the rules regarding the organisation and functioning of the Shareholders' Meeting and the current Corporate Enterprises Law, following the reforms introduced by Law 25/2011, of 1 August. This Law introduced certain adjustments and provisions aimed at strengthening the right of shareholders to participate at the General Shareholders' Meeting, which justified the adaptation thereto of the Regulation of the General Shareholders' Meeting and the Bylaws, at the General Shareholders' Meeting held on 19 April 2012.

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

Shareholders may also submit proposals in relation to the matters on the Agenda, in addition to making suggestions on the activities and interests of the Company which, in its view, should be discussed at the General Shareholders' Meeting. In both cases, shareholders may make proposals and suggestions through the Shareholder Information Office.

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

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

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

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

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

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

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

- **Organization, powers and composition.**

As of 31 December 2013, the Board of Directors was composed of 11 directors (1 executive director, 3 proprietary directors and 7 independent directors).

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

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

The Board approves the annual meeting calendar at the end of the preceding year and recognises the right of directors to make amendments to the Agenda of each meeting, provided sufficiently in advance (in practice, at least six days beforehand), together with the call notice and meeting documentation.

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

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

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

In particular, the Board has expressly reserved (Article 5 of the Regulations of the Board of Directors), on a non-delegable basis, certain direct responsibilities to be exercised only by it.

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

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

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

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

    - The various types of risk (operational, technological, financial, legal and reputational, among others) that the Company and the Group face, including, among financial and economic risks, contingent liabilities and other off-balance sheet risks.
    - The setting of the level of risk that the Company deems acceptable.
    - Planned measures to mitigate the impact of identified risks, in the event that they materialise.
    - The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.
  - viii) Approval of the policy of dialogue with investors and shareholders.
  - ix) Approval of the policy regarding appointments and the evaluation of candidates to the Board of Directors.
  - x) Approval of the policy regarding the performance evaluation of the Board and its directors.

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

b) The following decisions:

- i) Directors' remuneration and, in the case of executive directors, the additional consideration for their management duties and other contractual conditions.
- ii) The financial reporting which, due to its status as a listed company, the Company must periodically make to the public, or which it submit to the regulatory or market supervision bodies for publication.
- iii) Investments or transactions deemed to be strategic by virtue of their amount or special characteristics, unless their approval corresponds to the Shareholders' Meeting.
- iv) The creation or acquisition of holdings in special-purpose vehicles or entities domiciled in countries or territories that are considered tax havens, and any other transactions and operations that could impair the transparency of the Group.

c) Related-party transactions, as defined by the legislation in force from time to time, that are material or outside the ordinary course of business of the Company and must be reported obligatorily to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee.

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

d) The annual evaluation of:

- i) The quality and efficiency of the functioning of the Board and the performance by the Chairman and the Chief Executive of his functions, on the basis of the report of the Corporate Responsibility and Governance Committee, in coordination, where appropriate, with the lead independent director.
- ii) The functioning of its Committees, based on the report submitted by the Corporate Responsibility and Governance Committee in coordination, where appropriate, with the lead independent director.

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

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

---

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

years (a limit that was incorporated to the Regulations of the Board in January 2010). All other types of director may be reappointed indefinitely by the Shareholders' Meeting.

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

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

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

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

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

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

• **Professional profiles of the directors.**

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

Set out below are the principal activities pursued by Board members outside the Company at 31 December 2013

**Chairman of the Board and Chief Executive**

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

Degree in Economics. Final-year award with special distinction.

Doctorate in Economics, Universidad Autónoma de Madrid.

*Currently:*

Member of the Social Board, Universidad Autónoma de Madrid.

Chairman of the Board of Directors of Red Eléctrica Corporación, S.A.

*Formerly:*

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

Head of the economics department of the CEOE.

Member of the Economic and Social Board representing business organizations.

Secretary of State for Budgets and Expenditure. Ministry of Economy and Finance, from May 1996.

Secretary of State for Economy, Energy and Small and Medium-Sized Enterprises. Ministry of Economy, from April 2000.

Secretary of State for Energy, Industrial Development and Small- and

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

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

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

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

Law Degree, Universidad de Leon.

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

*Currently:*

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

*Formerly:*

State Attorney in the Courts and Tribunals of Madrid.

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

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

State Attorney Coordinating Legal Assistance to the Instituto Cervantes.

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

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

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

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

Author of a number of legal articles and publications.

---

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

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

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

Graduate in law from the Universidad Pontificia de Comillas (ICADE E-1).

Diploma in Company Consultancy from the Universidad Pontificia de Comillas (ICADE E-1).

Auditor. Real estate agent.

*Currently:*

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

*Formerly:*

Worked with the legal chambers of Ignacio Izquierdo del Valle.

Employed by Caja de Ahorros y Pensiones de Barcelona, "La Caixa". Credit Institutions Inspector attached to the Directorate General for Supervision of the Bank of Spain, responsible for various functions, from 2003 to 2012.

Lecturer in Accounting and the Spanish Financial System at the Centro de Estudios Financieros.

Lecturer in finance and accountancy on a number of postgraduate courses at the Centro de Estudios Financieros.

Conference speaker on issues relating to the financial system.

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

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

Doctorate in Economics, Universidad Autónoma de Madrid.

Lecturer in Economics and Director of the International Financial System

Chair at the IE Business School, specialising in Macroeconomics, the International Economy and Financial Stability.

*Currently:*

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

Chairman of Pividal Consultores.

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

Collaborator with the Fundación de Estudios Financieros.

Frequent economic commentator and columnist in the media.

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

Independent Director of Bankia, S.A.

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

*Formerly:*

Principal Economist at the International Monetary Fund.

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

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

Director of the European Business Programme.

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

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

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

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

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

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

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

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

**External independent director**

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

Law Degree, Universidad Complutense de Madrid

*Currently:*

Practicing attorney.

Member, Advisory Board, Accenture.

*Formerly:*

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

Undersecretary, Ministry of Health and Consumer Affairs.

Minister for Health and Consumer Affairs.

Member of Parliament for Segovia.

Member of Parliament for Madrid.

Deputy Chairwoman, Constitutional Committee, Lower House of Parliament.

**External independent director**

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

Degree in Economics, Universidad Técnica de Lisboa.

*Currently:*

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

*Formerly:*

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

Economist, research area, Banco de Portugal.

Consultant, OECD Department of Research (Paris).

Financial Director, Ministry of Finance.

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

Executive Director, TRANSGÁS, S.A.

CEO of GALP POWER.

Executive Director, GALP ENERGÍA SGPS.

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

**External independent director**

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

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

*Formerly:*

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

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

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

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

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

Member of Parliament for Jaen (1979-80).

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

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

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

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

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

Central Bank Chairman (1988-until dissolved).

Chairman and CEO of Grucycsa (1990-93).

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

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

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

Chairman of Corporación Financiera Issos (2007-2009).

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

**External independent director**

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

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

Trade Expert and State Economist. State Diploma in Trade.

*Currently:*

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

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

*Formerly:*

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

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

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

Director General of Mines.

Chairman of the National Mining Safety Commission.

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

Managing Director of Promotion at ICEX.

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

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

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

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

Director, Hulleras del Norte (HUNOSA).

Director, Banco Exterior de España.

Director, Compañía Logística de Hidrocarburos (CLH).

Director, FOCOEX.

Director, Tabacos de Filipinas.

Director, SIRECOX.

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

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

Director, Tabatrade.

Director, Banco Exterior de España, UK branch.

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

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

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

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

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

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

*Currently:*

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

*Formerly:*

Head of the Cogeneration Department, Business Management, Enagás.

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

Director of Services Development at Union Fenosa.

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

Institutional Relations and Communications Manager for BP Oil España.

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

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

**External independent director**

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

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

Doctor in Economic Science from the Universidad Complutense de Madrid.

*Currently:*

Professor of Applied Economics at UNED.

Deacon-Chairman of the College of Economists of Madrid.

CUNEF lecturer.

Academician of the Royal Academy of Doctors of Spain.

Director, Grupo SANJOSE.

Director, FERTIBERIA.

Member, Advisory Board, CAP GEMINI.

Chairman of the Club de Consejeros de España.

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

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

Member of the Board of Directors of Fujitsu.

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

*Formerly:*

Management Control Manager for ENUSA.

External Relations Manager and Economist at Fundación FIES, CECA.

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

Director General of Instituto de Estudios Económicos (IEE).

Lecturer in Economic Structure at various universities.

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

Member of the Supervisory Board of CAJA MADRID

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

**External independent director**

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

Law Degree, Universidad de Cordoba. State attorney.

*Currently:*

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

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

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

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

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

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

Trustee of the Fundación Wolters Kluwer.

Member of the Advisory Board of Fundación Cajasur.

Director, Banco Gallego S.A.

*Formerly:*

State Attorney at the High Court of Justice in Madrid.

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

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

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

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

State Attorney in the Communications Secretariat at the Development Ministry.

Cabinet Chief at the Ministry of Justice.

Director, Infoinvest, S.A.,

Director, Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA),

Director, Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI),

Director, Sociedad Estatal Correos y Telégrafos, S.A.,

Director, Banco Guipuzcoano, S.A.

Director, Banco CAM, S.A.

Undersecretary for Justice.

State Attorney in the Audiencia Nacional (National Court) Legal Department.

Head of Legal Services, Banco Sabadell.

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

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

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

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

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

*Currently:*

Secretary General and of the Board of Directors of Red Eléctrica de España, S.A., Member of the Madrid Bar Association, Director of the Dutch company Red Eléctrica de España Finance B.V., Joint Director of Red Eléctrica Financiaciones, S.A.U. and Director of the Luxembourg company REDCOR Reaseguros, S.A.

*Formerly:*

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

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

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

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

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

*Currently:*

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

*Formerly:*

Lawyer in the Legal Department of Red Eléctrica de España, S.A. since 1990 and secretary of the Board of Directors of Infraestructuras de Alta Tensión, S.A., Red de Alta Tensión, S.A. and Tenedora de Acciones de Redesur, S.A.

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

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

○ Board of Directors:

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

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

○ Audit Committee.

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

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

- o Corporate Responsibility and Governance Committee.

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

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

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

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

The Chief Executive is subject to specific checks on his responsibilities by the Board of Directors, from which he must request subsequent ratification regarding urgent decisions that he has had to adopt or, as the case may be, request the prior authorisation thereof.

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

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

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

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

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

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

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

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

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

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

- **Duty of loyalty**

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

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

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

- **Ban on using business opportunities**

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

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

- **Conflicts of interest**

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

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

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

Proprietary directors must disclose to the Board any conflict of interest between the Company and the shareholder that proposed their appointment, where the conflict of interest relates to matters submitted to the Board, and must refrain from participating in the adoption of the corresponding resolutions.

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

- **Prohibition on Competition**

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

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

- **Duty of secrecy**

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

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

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

#### • **Non-public information**

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

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

#### • **Indirect transactions**

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

#### • **Resignations**

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

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

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

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

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

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

#### • **Directors' Portal**

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

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

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

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

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

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

#### • **Evaluation of the Board.**

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

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

There were a number of major changes to the Company's Board of Directors in 2012. On 31 December 2012, only four of the eleven Directors sitting on the Board had held their posts for more than 12 months. KPMG regards this as having particularly enriched the process since, in its opinion, it has enabled the Company to combine the experience of the longest-serving Directors with the fresher outlook and approach of the Directors who joined during the year.

The main development in the assessment process, according to KPMG, was the introduction of a section specifically dedicated to assessing the performance of the Company's chief executive. Thus, the Chairman of the Board of Directors was evaluated twice: on the one hand, the directors assessed his year as head of the Company's governing body; and on the other, they assessed his performance as the Company's chief executive. The performance of the executive chairman was rated satisfactory in both cases.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **1. Audit Committee**

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

a minimum of three and a maximum of five members, all of whom are external directors and with the majority being independent directors, and appointed for a three-year term.

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

Throughout 2013, the Committee was comprised of External Directors, with a majority of Independent Directors. . The composition of the Company's Audit Committee on December 31, 2013, and on the date of approval of this report, is:

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

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

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

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

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

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

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

### ➤ **Functions**

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

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

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

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

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

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

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

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

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

4. In relation to compliance with *legal provisions and internal rules*, the Regulations establish an obligation on the Audit Committee to supervise compliance with the Internal Code of Conduct on the Securities Market and with the functions of the Monitoring Body provided in that Code, periodically informing the Corporate Responsibility and Governance Committee of the degree of compliance with the Code and of any incidents that may arise; to annually evaluate compliance with the rules of the Internal Code of Conduct on the Securities Market; and to review compliance with

the actions and measures resulting from reports or inspections by the supervisory and control authorities of the securities market. Finally, and as a recent addition to the Regulations, the Committee must supervise the Criminal Risk Prevention Programme, submit to the Board of Directors any proposals for improvement it considers appropriate, and, prior to its submission to the Board of Directors, supervise the preparation of the annual compliance report by the Programme's control and supervisory body.

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

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

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

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

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

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

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

The Committee Chairman shall be an Independent Director elected from among its members and the Secretary shall be Secretary of the Board of Directors.

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

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

In 2012, the Board of Directors approved a proposal from the Chairman to reduce the number of members of the Corporate Responsibility and Governance Committee from 4 to 3, in order to foster and promote good Corporate Governance policies and to make management more efficient and dynamic. The meeting also appointed Juan Iranzo Martín, Carmen Gómez de Barreda Tous de Monsalve and Alfredo Parra García-Moliner as Committee members for a term of 3 years. with Mr Iranzo Martín as its Chairman.

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

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

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

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

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

---

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

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

➤ **Functions**

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

- a) To report –and propose, in the case of independent directors– in advance, on all proposals submitted by the Board of Directors to the Shareholders’ Meeting for the designation or removal of Directors, even in case of co-optation. To propose to the Board of Directors, the appointment of the Lead Independent Director.
- b) To propose the remuneration policy for Directors and Senior Executives to the Board of Directors and ensure its observance.
- c) To assume such reporting, supervising and proposing functions in the area of Corporate Governance as may be determined by the Board of Directors.

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

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

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

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

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

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

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

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

## 2- In relation to *remuneration*:

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

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

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

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

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

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

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

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

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

5- In relation to *Corporate Responsibility*:

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

6- *Other functions*:

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

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

### **1. Introduction**

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

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

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

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

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

## **2. Functions.**

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

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

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

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

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

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

### 3. In respect to the Shareholders:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

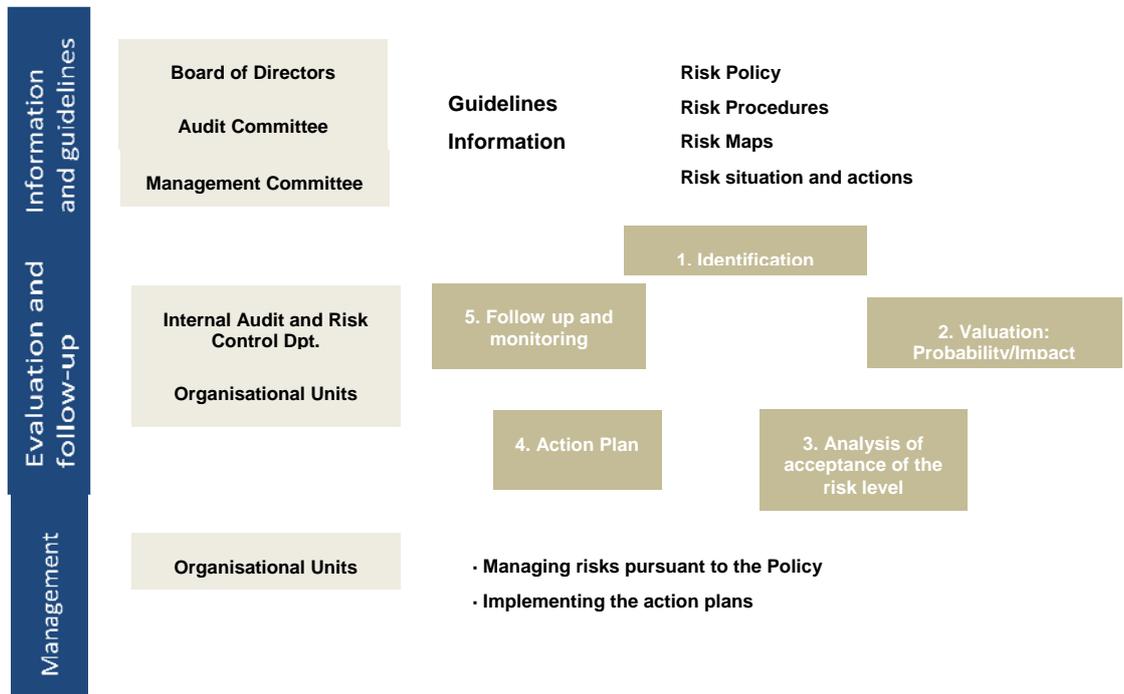
The Policy and Procedure define the various responsibilities of each of the units and governing bodies of Red Eléctrica Group, and also the information flows and activities to be carried out, in accordance with the model that appears in the graph below.

---

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

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

## Integrated Risk Management Model



As expressly recognised in the Regulations of the Board of Directors, the **Board of Directors** is responsible for approval of the Integrated Risk Management Policy of the Company and of the Group, and knowledge and periodic monitoring of internal control, prevention and reporting systems.

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

The **Audit Committee** has been given the powers to periodically supervise the risk management system, to ensure that the main risks are adequately identified, managed and disclosed.

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

- Promoting implementation of the Integrated Risk Management Policy.
- Monitoring the Risk Map, and agreeing on the appropriate actions to facilitate the achievement of the global objectives.

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

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

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

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

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

### Evaluation and monitoring of risks

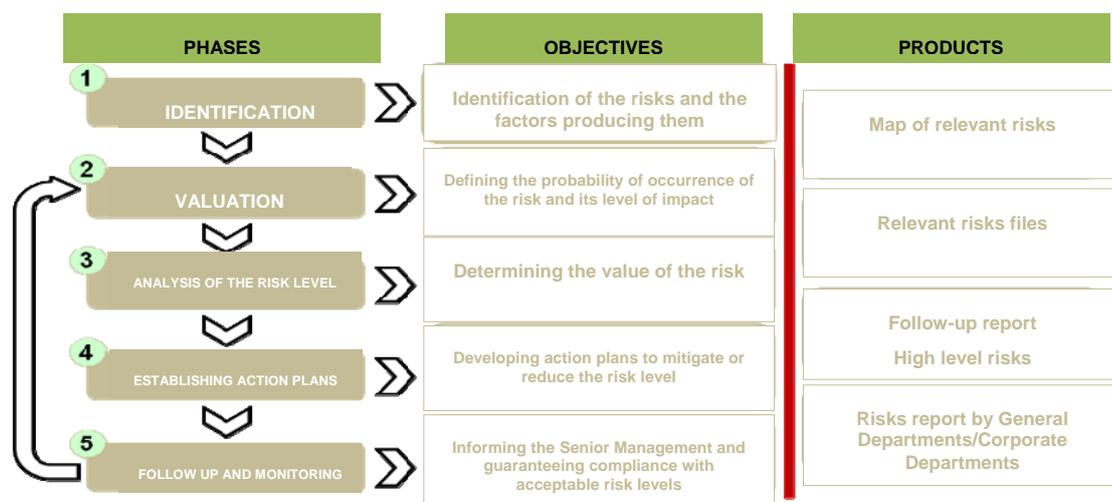


Figure 1

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

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

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

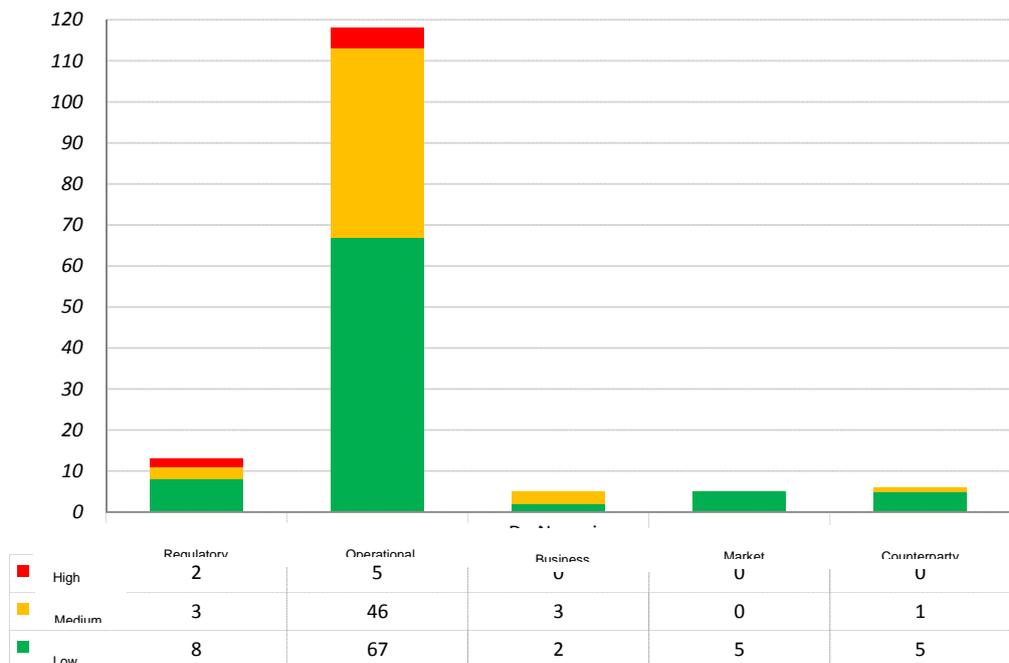
In this context it is important to highlight the following for their importance and relevance:

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

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

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

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



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

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

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

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

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

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

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

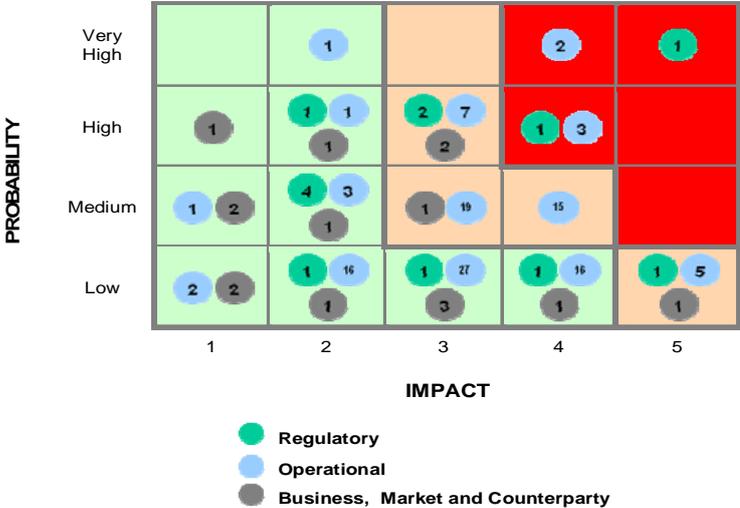
In relation to their impact, risks are rated on the basis of the effect that their materialisation could have on four key elements of the business:

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

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

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

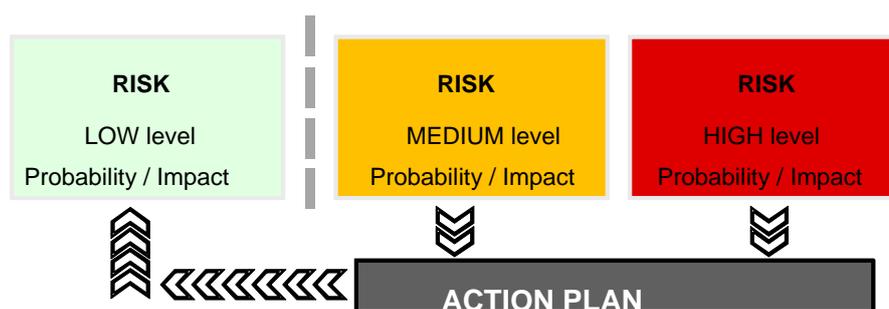
### Risk matrix



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

## Level of tolerance

### Integrated Risk Management Process



12

#### 5. Materialised risks in 2013.

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

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

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

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

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

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

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

### *Contingency Plans*

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

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

This procedure:

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

Furthermore, it should be noted that in 2007 Red Eléctrica embarked on a project to align, review and improve its System for Internal Control over Financial Reporting (ICFR), with the basic aim of improving the efficiency and security of processes for preparing economic and financial information on the Company, with the early and voluntary adoption of international best practices.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Under Article 7 of the Internal Code of Conduct on the Securities Market, obligated parties and temporarily obligated parties must generally endeavour to avoid situations of direct conflict of interest or conflicts of interest concerning Related Persons and must notify the Oversight Body of any situations of Conflict of Interest that may reasonably arise within fifteen (15) days from such situations coming to their attention, so that the Oversight Body may adopt the appropriate decisions in advance. In the case of Directors, they shall notify the situations described in the preceding paragraph through the Office of the Secretary of the Board of Directors.

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

The Oversight Body shall keep up to date an itemised register of the conflicts of interest notified by the various Obligated Parties and Temporarily Obligated Parties, and shall adopt adequate security measures for its safekeeping and storage, and, in any event, access to the register shall be restricted.

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

Pursuant to article 13 of the Reglamento Interno de Conducta en el Mercado de Valores, the Audit Committee is responsible for supervising compliance with the Internal Code of Conduct and the performance of the functions of the Oversight Body, the person responsible for the material transaction and the Office of the Secretary of the Board of Directors contemplated therein, and for the internal resolution of any such questions and conflicts raised by Obligated Parties or Temporarily Obligated Parties as may be submitted to the Committee by the Oversight Body. The Audit Committee will evaluate compliance with the Internal Code of Conduct on an annual basis and will adopt any appropriate measures for its optimum implementation and improvement. It is also responsible for proposing to the Corporate Responsibility and Governance Committee, for referral to the Board of Directors, any amendments it deems necessary in light of the Board's commitment to update it constantly, and adopt the best corporate governance practices in the area, and of the applicable legislation.

In relation to company executives, Article 2.1.3 of the Internal Code of Conduct on the Securities Market establishes that Company executives, as defined in Chapter 1, are deemed to be subject to the Code and, accordingly, will be subject to potential conflicts

of interest. Article 5.2. of the Internal Code provides that, when circumstances so require, the Oversight Body may decide to include as persons subject to the Code, on a temporary basis, any persons participating in a material transaction that have access to inside information. The parties affected will be given individual written notice of their inclusion on or exclusion from those lists.

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

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

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

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

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

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

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

There follows a list of the main awards and recognition received by the Company in fiscal year 2013 in the area of Corporate Governance; although some of these were obtained in the context of distinction in the area of corporate responsibility, the Corporate Governance aspect was acknowledged.

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

## **CHAPTER III.-MATERIAL EVENTS DISCLOSED TO MARKETS**

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

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

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

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

The material events notified to the CNMV in 2013 were as follows:

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

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

**2. Interim financial information**

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

**3. Information on supplementary dividend**

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

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

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

**5. Annual Corporate Governance Report**

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

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

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

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

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

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

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

## **9. Interim financial information**

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

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

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

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

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

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

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

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

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

## **14. Interim financial information**

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

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

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

## **16. Credit ratings**

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

## **17. Interim financial information**

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

## **18. Credit ratings**

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

## **19. Credit ratings**

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

## **20. Information on dividends**

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

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

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

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

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

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

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

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

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

The 2013 Annual Reports on the Activities of the Corporate Responsibility and Governance Committee and of the Audit Committee are reproduced in full below.

### **REPORT ON THE ACTIVITIES OF THE CORPORATE RESPONSIBILITY AND GOVERNANCE COMMITTEE IN 2013**

#### **1 Introduction.**

---

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

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

---

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

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

##### **2.1. Structure and functions**

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

The Committee is assigned powers regarding the appointment and removal of Directors and senior executives, their remuneration, compliance with Director's duties and observance of Corporate Governance principles and rules, and other aspects of Corporate Responsibility policy.

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

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

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

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

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

## 2.2. Composition.

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

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

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

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

Director	Position	Type of Director
Juan Iranzo Martín	Chairman	External Independent
Carmen Gómez de Barreda Tous de Monsalve	Member	External Independent

Alfredo Parra García-Moliner <sup>9</sup>	Member	External Proprietary (SEPI)
---	--------	-----------------------------

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

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

Independent Directors have a majority of votes on the Corporate Responsibility and Governance Committee, and its Chairman must be an Independent Director.

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

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

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

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

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

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

---

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

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

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

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

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

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

---

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

The most significant actions taken by the Corporate Responsibility and Governance Committee in 2013, were:

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

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

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

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

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

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

- Analysis of the report on the self-assessment of the Board of Directors, of the conclusions and recommendations of the external assessment process for the Board of Directors, its Committees and the Chairman for 2012, prepared by KPMG.
- Analysis and approval of the proposed awarding of the contract to PricewaterhouseCoopers for the assessment process for 2013, or submission to the Board of Directors.
- Analysis of the Code of Ethics, for submission to the Board of Directors.
- Analysis of the Annual Gender Diversity Report, for submission to the Board of Directors.
- Analysis of the text of the call notice and agenda, and the approval of the proposed resolutions and reports, for submission to the Board relating to the Annual General Shareholders' Meeting for fiscal year 2012.
- Analysis of the report on the advance evaluation process of the management procedures of the Annual General Shareholders' Meeting, prepared by Deloitte for this purpose.
- Analysis and implementation of the Corporate Governance Improvement Programme.
- Analysis and approval of the report into implementation of the Criminal Risk Prevention Programme, for submission to the Board of Directors.

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

- Analysis and submission to the Board of Directors of the 2012 Annual Report on Corporate Responsibility Policy.
- Analysis of reports into Corporate Responsibility results.
- Analysis of the monitoring and assessment report into Red Eléctrica's Equality Policy.

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

- Approval of the Annual Report on the Committee's activities in 2012, for incorporation into the Annual Corporate Governance Report for the year.
- Approval of the Committee's Action Plan for 2014.
- Approval of the Committee's meeting timetable for 2014.

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

---

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

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

### 1 Introduction

---

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

### 2 Structure, composition and functions

---

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

As a consequence, the functions of the Audit Committee have been adapted to the requirements of the eighteenth additional provision of the Securities Market Law, which was modified by Law 12/2010, of 30 June, which transposes Directive 2006/43/EC of the European Parliament and of the Council of May 17, 2006 on statutory audits of annual accounts and consolidated accounts into Spanish law, which aims to strengthen the powers of the Audit Committee to verify the independence of the External Auditor and essentially affects the composition, structure and functions of the Audit Committee.

#### 2.1 Structure and composition

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

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

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

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

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

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

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

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

Paloma Sendín de Cáceres is a Graduate in Economics and Business Science from the Universidad Autónoma de Madrid.

She is a Commercial Technician and State Economist and holds a State Commercial Diploma.

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

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

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

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

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

She is a Member of the Advisory Board of Accenture.

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

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

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

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

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

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **3.7 Other activities:**

- Approval of the 2012 Annual Report on the Activities of the Audit Committee, to be incorporated into the Annual Corporate Governance Report for the year.
- Analysis of the report into renewal of the Red Eléctrica Corporate Insurance Programme 2013-2014.
- Approval of the 2014 meeting timetable.
- Approval of the Committee's Action Plan for 2014.

## **4 Director attendance at meetings**

---

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

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

---

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

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

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

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

## **TITLE V- THE CORPORATE GOVERNANCE OUTLOOK IN RED ELÉCTRICA**

As was the case in 2012, this year's Annual Corporate Governance Report includes a title dedicated to the outlook at Red Eléctrica in matters of Corporate Governance, as it may interest current shareholders, potential investors and other stakeholders in the future of Red Eléctrica, in particular, foreign shareholders, who own around 70% of the Company's share capital.

The statements in this Title do not in themselves represent either formal commitments or obligations for the Company that may be required by others. Rather these are potential steps and actions that may be taken in 2014 and future years as decided by the Board of Directors of Red Eléctrica. The Company is committed to incorporating international Corporate Governance best practices, and must continue projecting and consolidating its position every year in response to the requirements of its shareholders.

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

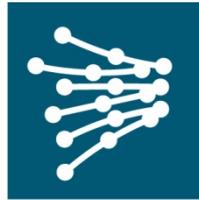
This year, as mentioned at the start of this report, we have gone a step further in improving our dialogue with and commitment to shareholders, with Red Eléctrica becoming a member of the world's leading Corporate Governance organisation, International Corporate Governance Network (ICGN); the first Spanish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

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

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

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

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



**RED ELÉCTRICA**  
CORPORACIÓN

**OFFICIAL ANNEX**

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

**MODEL ANNEX I**

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**ISSUER'S IDENTITY DETAILS**

FINANCIAL YEAR END

2013 (1)

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

(1) Unless another date is expressly indicated in this report, its contents are deemed to refer to 31 December 2013.

<b>ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES</b>
--

**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

Type	Number of shares	Nominal amount	Nominal amount of voting rights	Other rights

**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	Indirect voting rights		% of total voting rights
		Name of direct holder	Number of voting rights	
State-owned Industrial Holdings Company (SEPI)	27,054,000	--	--	20%
HSBC Holdings, PLC	--	--	4,381,395	3.239%
Talos Capital Limited	4,175,785	--	--	3.087%
The Children's Investment Fund Management (UK) LLP	--	--	4,175,785	3.087%
First Eagle Investment Management LLC	--	--	4,132,499	3.055%
Fidelity International Limited	--	--	--	1.066%

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

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
--	--	--

**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	Indirect voting rights		% of total voting rights
		Name of direct holder	Number of voting rights	
José Folgado Blanco	1,000	-	-	0.00074
Alfredo Parra García-Moliner (*)	-	-	-	-
Francisco Ruiz Jimenez	-	-	-	-
Fernando Fernández Méndez de Andés	-	-	-	-
Juan Irazo Martín	-	-	-	-
Paloma Sendín de Cáceres	-	-	-	-
Carmen Gómez de Barreda Tous de Monsalve	-	-	-	-
María de los Ángeles Amador Millán	-	-	-	-
Miguel Boyer Salvador	-	-	-	-
María José García Beato	5	-	-	0.000004
Rui Manuel Janes Cartaxo	-	-	-	-

% total of voting rights held by the Board of Directors	0.000744
---	----------

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

Complete the following tables on share options held by directors:

Name or corporate name of director	Number of direct options	Indirect options		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
	-	-	-	-	-

**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:**

Related-party name or corporate name	Type of relationship	Brief description
-	-	-

**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:**

Related-party name or corporate name	Type of relationship	Brief description
-	-	-

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

Yes  No

Shareholders bound by agreement	% of share capital affected	Brief description of agreement

At 31 December 2013, the Company had no record of any agreements or covenants between shareholders that require them to adopt a common policy through the concerted exercise of voting rights at General Shareholders' Meetings, or which restrict or condition the unrestricted transfer of their shares.

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

Yes No 

At 2013 year-end, there was no record at the Company of any agreements or accords between shareholders requiring the concerted exercise of their voting rights, or a common policy on the management of the Company, or having the aim of materially influencing the Company.

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

*Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.*

**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 

Name or corporate name

Remarks
At 2013 year-end, SEPI was the direct owner of a significant interest in the Company, holding 27,054,000 shares representing 20% of capital. All of the foregoing is pursuant to Royal Decree 1362/2007, of 19 October. No individuals or legal entities exercise or may exercise control over the Company, pursuant to Article 4 of the Securities Market Law.

**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
38,376	-	0.0284

(\*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
-	-
<b>Total:</b>	-

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

<b>Date of notification</b>	<b>Total number of direct shares acquired</b>	<b>Total number of indirect shares acquired</b>	<b>% of total share capital</b>
01/02/2013	97,550	-	1.03494
03/06/2013	6,000	-	1.00102
20/12/2013	8,000	-	1.00024

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

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 18 April 2013. The purpose of this was for the shareholders to renew the authorization granted last year, in accordance with the latest corporate governance practices. 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 18 April 2013 gave authorization to the Board of Directors, pursuant to the provisions of Article 146 and related provisions of the Corporate Enterprises Law and other applicable legislation, for the derivative acquisition of treasury stock in Red Eléctrica Corporación, S.A. by the Company itself and by companies of the Red Eléctrica Group, directly or indirectly, and insofar as the Board of Directors considers that the circumstances so dictate, subject to the following conditions:

- The maximum number of shares to be acquired must not exceed the established legal limit, provided that the other applicable legal requirements can also be fulfilled.
- Acquisitions cannot be made for a consideration higher than the market value of the shares at the time of acquisition, or for a consideration lower than 50% of the market price at that time.
- The methods of acquisition may consist of sale and purchase, swap or any other type of transaction for consideration or without consideration, as the circumstances so advise. In the case of acquisition without consideration, pursuant to the provisions of Article 146.4 of the Spanish Corporate Enterprises Law, the shares acquired may be partially paid up.
- Pursuant to the provisions of Article 146.1 b) of the Spanish Corporate Enterprises Law, the acquisition, including any shares previously acquired by the Company and held as treasury stock, may not have the effect of leaving net equity below the amount of capital stock plus legal reserves or restricted reserves pursuant to the Bylaws.

For these purposes, 'net equity' will be considered the amount classed as such under the criteria used in preparing the financial statements, less the amount of income attributed directly to same and plus the amount of uncalled subscribed capital stock, and also plus the nominal amount and the subscribed additional paid-up capital recorded for accounting purposes as shareholders' equity.

In accordance with paragraph three of Article 146.1 a) of the Corporate Enterprises Law, the Board of Directors of the Company may use some or all of the treasury stock acquired under this authorization and the treasury stock already owned by the Company on the date of approval of the resolution to implement compensation programs consisting of the direct award of shares to employees and executive directors of the Company and 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 19 April 2012.

**A.10 Give details of any restriction on the transfer of securities 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.**

*Indicate whether there are restrictions on the exercise of voting rights:*

Yes

No

Description of restrictions
<p><b>Maximum percentage of voting rights that can be exercised by a shareholder subject to special legal restriction (Law 54/1997, of 27 November, additional provision twenty three):</b></p> <p>3% (general) 1% (electricity industry)</p> <p><b>Maximum percentage of voting rights that may be exercised by a shareholder due to bylaw restrictions:</b></p> <p>3% (general) 1% (electricity industry)</p> <p>Various amendments to Electricity Industry Law 54/1997 of 27 November 1997, affecting restrictions on voting rights were introduced with the entry into force of Law 17/2007 of 4 July 2007, amending Law 54/1997 to adapt it to the provisions of Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity. This Community provision that has been superseded by Directive 2009/72/EC of 13 July 2009, which proclaims the mandatory independence of transmission companies and operators of European electricity systems.</p> <p>The second section of the third additional provision of Law 17/2007, of 4 July, set out maximum limits on the exercise of voting rights, in order to guarantee the independence of the company in performance of regulated activities in the electricity sector.</p> <p>Royal Decree-Law 13/2012, of 30 March, incorporated a number of Directives into Spanish law. One of these was Directive 2009/72/EC of 13 July 2009, which proclaims the mandatory independence of transmission companies and operators of European electricity systems. This endorsed the legal limits on holdings and voting rights applicable to the Company's shareholders, including some further restrictions on companies involved in generating and resale. Royal Decree-Law 13/2012, of 30 March, modified additional provision twenty three of the Electricity Industry Law and article 34.1 of Law 54/1997, of 27 November. This additional provision remains in effect pursuant to the single repeal provision of Law 24/2013, of 26 December, on the Electricity Industry.</p> <p>The limits on shareholdings established in additional provision twenty three</p>

of Law 54/1997, of 27 November are:

- Any individual or legal entity may hold shares in the Company, provided that the sum of their direct and indirect interests in the Company's capital does not exceed 5% of capital and they do not exercise more than 3% of voting rights. These shares may not be pooled for any purpose whatsoever.
- Parties that engage in activities in the electricity industry, and those individuals or legal entities that directly or indirectly hold more than five percent of their capital, may not exercise more than one percent of voting rights, without prejudice to the limitations established in article 34.2 of the Electricity Industry Law for generators and resellers.
- The special regime for Sociedad Estatal de Participaciones Industriales (SEPI) is maintained, whereby it must hold at least ten percent (10%) of capital in all cases.

These legal provisions on the general and special shareholding regime are set out in articles 5 and 14 and the Sole Additional Provision of the Corporate Bylaws, and in article 6.3 of the Regulations of the General Shareholders' Meeting (the Corporate Bylaws were formally adapted to reflect the content of additional provision twenty three of Law 54/1997, of 27 November, at the Ordinary General Shareholders' Meeting held on 18 April 2013, taking advantage of other Bylaw changes). Articles 5 and 14 and the single additional provision set out restrictions on the exercise of voting rights, as follows:

**“Article 5. Capital stock**

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

*2. Pursuant to the provisions of the Electricity Industry Law:*

*1) The total direct or indirect holding owned by any individual or legal entity in the capital stock of the Company can at no times be greater than five percent (5%) of the capital stock of the Company, unless otherwise authorised by the Law. These shares cannot be syndicated for any purpose. No shareholder may exercise more than three percent (3%) of non-economic rights. Parties pursuing activities in the Electricity Industry and individuals or legal entities which directly or indirectly own holdings in the capital thereof equal to more than five percent (5%) may not exercise more than one percent (1%) of non-economic rights. Furthermore, the direct or indirect holdings of parties pursuing activities in the electricity industry, when added together, must not total more than forty percent (40%).*

*2) In order to calculate the holding of each shareholder, an individual or legal entity shall be deemed to own, in addition to the shares and other securities owned or acquired by the entities belonging to its group, as defined in Article 4 of Securities Market Law 24/1988, those which are owned by:*

a) *Persons acting in their own name but for the account of the aforesaid shareholder, on a specific basis or forming a decision-making unit, the members of a legal entity's Board of Directors being deemed, unless proven otherwise, to act for the account of or on a concerted basis with such entity.*

b) *The shareholders with whom the aforesaid shareholder exercises the control of a dependent company.*

*In any case, regard shall be had both to the nominee ownership of the shares and other securities and to the voting rights held under any title.*

3. *Notwithstanding the provisions of Article 6.2 of these Bylaws, the infringement of the limits indicated in Article 5.2 or of those imposed at any time by the legislation in force shall entail the legal consequences determined therein, including, if appropriate, the imposition of the relevant penalties and that which is provided for in these Bylaws.*

*The non-economic rights relating to shares or other securities which, pursuant to the provisions of the legislation in force at any given time, exceed the limit stipulated in this Article shall be held in abeyance until they are brought into line with that limit.*

4. *As an exception to the general rule and by reason of the singular regime conferred by the Electricity Industry Law on the State Industrial Holding Company (Sociedad Estatal de Participaciones Industriales), the holding and the voting rights of this Company shall be governed by the provisions of these Bylaws, except where provision is made in the Sole Additional Provision of same.*

#### **Article 14 Quorum**

*Annual and Special Shareholders' Meetings shall be called and validly convened pursuant to the Law.*

*In order for an Annual or Special Shareholders' Meeting to be able to validly adopt a resolution for a capital increase or reduction or any other amendment of the Corporate Bylaws, the issue of debentures, the removal or limitation of the pre-emptive right of acquisition of new shares, or an alteration of legal form, merger, spin-off or transfer en bloc of assets and liabilities, or the transfer abroad of the registered office, shareholders holding at least 50 percent of the subscribed voting capital stock must attend in person or by proxy on first call. On second call, the attendance of 25 percent of said subscribed voting capital stock shall be sufficient.*

*Shareholders entitled to attend and vote and who cast their votes remotely, as provided for in Article 17 of these Bylaws, must be counted as present for the purposes of convening the General Shareholders' Meeting.*

*Non-voting shares and those whose holders are not up to date in the payment of calls on unpaid capital shall not be counted as present at any Shareholders' Meeting.*

*Shares or other securities the non-economic rights of which exceed the limits recognized in Article 5 shall not be taken into account when calculating the quorum required to convene the relevant Shareholders' Meetings or when calculating the majorities for adoption of resolutions.*

**Sole Additional Provision. Special Regime for State Industrial Holding**

**Company (SEPI).**

1. *By virtue of the provisions of the Electricity Industry Law, neither the limitations stipulated in the Electricity Industry Law, nor the limitations stipulated in these Bylaws on the holding of shares in the Company and on non-economic rights shall apply to the State Industrial Holding Company. The State-Owned Industrial Holdings Company shall in all cases have a shareholding of not less than 10%.*

2. *Where a Director, who is an individual, holds his office on behalf of the said shareholder, pursuant to the provisions of the Electricity Industry Law, his compensation must be brought into line with the applicable provisions on matters of conflicts of interest in the public sector stipulated for such purpose, notwithstanding any compensation that might be due to the public shareholder, either because it is directly designated a member of the Board of Directors or for services provided to the Board or to its standing committees by persons representing that public shareholder in the Company's capital and exceeding those which, pursuant to the aforesaid legislation, may relate to them personally, all of the foregoing for as long as ownership is maintained pursuant to the applicable legislation."*

There are no other additional bylaw restrictions other than purely legal restrictions.

In turn, the National Markets and Competition Commission is authorized to take legal action to enforce the aforementioned statutory limits. Breach of the established shareholding limits constitutes a very serious infringement under Law 24/2013, on the electricity industry, and the individuals or legal entities that own the securities, or to whom the excess shareholding is attributable, will be held liable.

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

Yes

No

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

Transfer of the shares representing the capital of Red Eléctrica Corporación, S.A. is free and is not subject to any restriction.

Electricity industry legislation establishes certain limits on shareholdings, in the terms set out above.

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

**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 Bylaws. Describe how it differs from the system of minimum quorums established in the LSC.**

Yes  No

	Quorum % other than that established in article 193 of the LSC for general cases	Quorum % other than that established in article 194 of the LSC for the special cases described in article 194
Quorum required for first call	-	-
Quorum required for second call	-	-

Description of differences
-

**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.*

	Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC	Other cases requiring a qualified majority

<b>% set by company for adopting corporate resolutions</b>	-	-
<b>Describe the differences</b>		
-		

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

The amendment of the Corporate Bylaws of Red Eléctrica Corporación, S.A. presents no differences to the system provided for in Article 285 and subsequent articles of the Corporate Enterprises Law and which requires approval by the General Shareholders' Meeting, with the majorities provided for in Article 194 and 201 of said Law.

Pursuant to article 14 of the Corporate Bylaws, 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 Bylaws, 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.

Law 25/2011, of 1 August, introduced a number of modifications regarding the content of the websites of listed companies, particularly with regard to information to be published on the website when a general shareholders' meeting is called. Although most of this information was already available on the company's website, the Ordinary General Shareholders' Meeting held on 19 April 2012 approved a modification to the Regulations of the General Shareholders' Meeting to include the content required by Law.

The 19 April 2012 General Shareholders' Meeting also ratified the creation of the corporate website "www.ree.es", for the purposes of article 11 bis of the Revised Text of the LSC.

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 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 Audit Committee and of the Corporate Responsibility and Governance Committee are made available to all shareholders in the Annual Corporate Governance Report.
- A Shareholder Bulletin is published quarterly, containing the main news about the Company.
- The Chairman of the Audit Committee is available to all shareholders during General Shareholders' Meetings to deal with any matters falling within his jurisdiction as may arise, reporting these in the minutes of the Meeting.
- 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 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 2012, the Company entrusted its review of the voting management and results processes at the General Shareholders' Meeting to the consultancy Deloitte. Their final report identified a number of the Company's strengths, whilst also making some proposals for improvements and a number of recommendations.
- In 2013, Deloitte carried out an audit of management processes at the General Shareholders' Meeting so as to ensure and improve shareholders' rights at the Meeting. The auditor's reports were published on its website on the day of the General Shareholders' Meeting.

**B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the 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	-	57.56
19.04.2012	20.8	41.0	0.1	-	61.9

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

Yes  No

Number of shares required to attend the General Meeting	-
---	---

**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

Refer to article 11 of the Corporate Bylaws and article 3 of the Regulations of the General Shareholders' Meeting.

**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 Law 25/2011, of 1 August, more prominence is given to company websites, since it introduces a new Article 11 bis to the Corporate Enterprises Law regulating the online site or corporate website. The Law also incorporates an obligation under Article 516 of the Corporate Enterprises Law for listed companies to use the website to disseminate the call notice for the General Shareholders' Meeting, something which Red Eléctrica Corporación, S.A. has been doing for a number of years.

As indicated previously, Law 25/2011 established an obligation on corporate enterprises to have a website, which must be approved by the General Shareholders' Meeting and registered at the Mercantile Registry. As a result, the General Shareholders' Meeting held on 18 April 2013 ratified the creation of the website of RED ELÉCTRICA and this has been registered with the Mercantile Registry.

The Company's website ([www.ree.es](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. These sections include the following content, among other items, in accordance with the Regulations of the General Shareholders' Meeting:

- The Corporate Bylaws.
- The Regulations of the General Shareholders' Meeting, the Regulations of the Board of Directors and other corporate governance provisions.
- Quarterly reports for the year and annual reports for the past two years, together with reports by the external auditor.
- The Annual Corporate Governance Report prepared by the Board.
- The composition of the Board and its Committees.
- Details of shareholders with stable holdings, both direct and indirect, and their representation on the Board, as well as any side agreements between shareholders that have been disclosed to the Company and the market.
- The shareholdings of each of the members of the Board.
- The report on the remuneration policy for the Board of Directors.
- Information contained in the presentations made to different market operators and analysts, intermediaries and significant shareholders.
- Material events disclosed to the CNMV.
- The resolutions adopted at the last Shareholders' Meeting, including details on the composition and result of the vote.
- The current call for the next Shareholders' Meeting.
- Any information that must be made available to shareholders along with the call for the General Shareholders' Meeting.
- Responses to proposals and suggestions made by shareholders;
- Communication channels between the Company and the shareholders and the relevant explanations regarding the exercise of the right to

information, indicating the postal and electronic mail addresses to which shareholders may send their questions.

- The Shareholders' Electronic Forum and its Operating Rules.
- Means and procedures for granting proxies for Shareholders' Meetings, as well as the means and procedures for casting votes remotely, with the ballots approved for doing so.

As regards the disclosure of resolutions approved by the General Shareholders' Meeting, Article 17 of the Regulations of the General Shareholders' Meeting specifies that, without prejudice to the recording of all resolutions requiring registration at the Mercantile Registry and to any applicable legal provisions regarding disclosure of corporate resolutions, the Company will submit the text of the approved resolutions to the CNMV in a notice disclosing a material event on the day the meeting is held or on the immediately following business day. Once it has been reported to the CNMV, the text of the resolutions is also made available on the Company website.

Work continued in 2013 to enhance the content of the Company website as a means of communication with shareholders and investors, pursuant to Order ECO/461/2013, of 20 March, and CNMV Circular 5/2013, of 12 June.

Following an exhaustive international benchmarking exercise, the structure and content of the Company's website was also subject to a major redesign, creating a section dedicated to Corporate Governance, accessible from the homepage, so as to improve communication channels with shareholders, promoting dialogue and improving understanding of the activities of the corporate governance bodies of Red Eléctrica.

The following noteworthy activities also took place in 2013:

- The live and simultaneous broadcast, in Spanish and English, of the Annual Shareholders' Meeting held on 18 April 2013.
- The live and simultaneous broadcast, in Spanish and English, of the presentation of 2012 year-end results and the Company's 2013-2017 Strategic Plan.
- The publication in English of the call notice, as from the date of its publication in Spanish, and proposed resolutions submitted for approval to the General Shareholders' Meeting, as well as all related documentation, including the Annual Corporate Governance Report.

The Shareholders' Electronic Forum was again available to shareholders in 2013. 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 Law 24/1988, of 28 July 1988, introduced by Law 12/2010 of 30 June 2010, and in Article 539.2 of the Revised Corporate Enterprises Law, 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 2013 was not used by the Company's shareholders.

The Company is firmly committed to continuing to improve and adapt its website as a living tool for communication, dialogue and commitment with its shareholders.

## C COMPANY MANAGEMENT STRUCTURE

### C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws:

<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, Executive Director	22.05.08	19.04.12	General Shareholders' Meeting
Alfredo Parra <sup>1</sup> García - Moliner		Member	19.04.12	19.04.12	General Shareholders' Meeting
Francisco Ruiz Jiménez		Member	19.04.12	19.04.12	General Shareholders' Meeting
Fernando Fernández Méndez de Andés		Member	19.04.12	19.04.12	General Shareholders' Meeting

<sup>1</sup> At its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-Moliner from his position as proprietary director in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

María Angeles Amador Millán		Member	26.05.05	18.04.13	General Shareholders' Meeting
Rui Manuel Janes Cartaxo		Member	20.05.10	20.05.10	General Shareholders' Meeting
Miguel Boyer Salvador		Member	20.05.10	20.05.10	General Shareholders' Meeting
Paloma Sendín de Cáceres		Member	19.04.12	19.04.12	General Shareholders' Meeting
Carmen Gómez de Barreda Tous de Monsalve		Member	19.04.12	19.04.12	General Shareholders' Meeting
Juan Irazo Martín		Member	19.04.12	19.04.12	General Shareholders' Meeting
María José García Beato		Member	29.11.12	18.04.13	General Shareholders' Meeting

<b>Total number of Directors</b>	<b>11</b>
----------------------------------	-----------

*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>
-	-	-
-	-	-

No directors left their positions on the Board in 2013. However, at its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-Moliner from his position as proprietary director in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

**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	Corporate Responsibility and Governance Committee	Chairman

<b>Total number of Executive Directors</b>	1
<b>% of the board</b>	9.09%

**EXTERNAL PROPRIETARY DIRECTORS**

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
Alfredo Parra <sup>2</sup> García - Moliner	Corporate Responsibility and Governance Committee	State-owned Industrial Holdings Company (SEPI)
Francisco Ruiz Jiménez	Corporate Responsibility and Governance Committee	State-owned Industrial Holdings Company (SEPI)
Fernando Fernández Méndez de Andés	Corporate Responsibility and Governance Committee	State-owned Industrial Holdings Company (SEPI)

<b>Total number of proprietary directors</b>	3
<b>% of the board</b>	27.3%

**INDEPENDENT EXTERNAL DIRECTORS**

Name or corporate name of director	Profile
<b>Maria Ángeles Amador Millán</b>	<p><b>Profile</b> 10 October 1949.</p> <p>Law Degree, Complutense University, Madrid</p> <p><i>Currently:</i></p>

<sup>2</sup> At its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-Moliner from his position as proprietary director in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

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

	SGPS.
<b>Miguel Boyer Salvador</b>	<p><b>Profile</b> 5 February 1939.</p> <p>Degree in Physical Science and Economics and Political Science, with special distinction, University of Madrid.</p> <p><i>Formerly:</i></p> <p>Lecturer in physics at the Escuela de Ingenieros de Telecomunicación (1976-77). Lecturer in macroeconomics at Madrid's Autónoma University (1978-79). Economist by competitive examination at the Banco de España research department (1969; 1979-1981). Director of Studies, Instituto Nacional Industria (I.N.I.) (1974) Head of Strategic Planning, Rio Tinto Explosives (1975-8) Member of Parliament for Jaen (1979-80). Director of Planning and Studies, Instituto Nacional de Hidrocarburos (1981). Minister for Economy, Finance and Trade (1982-1985). Chairman, Banco Exterior de España (1985-1988). Member of the Review Committee, European Organization for Nuclear Research (CERN, Geneva) (1986-87). Member – as one of two experts – of the Expert Group on the Economic and Monetary Union of the European Union (“Delors Commission”) (1988). Chairman of Cartera Central (1988-until it was dissolved). Chairman and Chief Executive, Grucycsa (1990-93). Deputy Chairman, FCC Construcción (1993-99). Chairman, Compañía Logística de Hidrocarburos (CLH) (1999-2005). Member of the International Advisory Board of Robert Bosch,</p>

	<p>GmbH (1989-2011). Chairman Corporación Financiera Issos (2007-2009). Representative of Corporación Financiera Issos, on the Board of Directors of Reyal-Urbis, S.A. (2006-March 2013).</p>
<p><b>Paloma Sendín de Cáceres</b></p>	<p><b>Profile</b> 19 September 1951</p> <p>Graduate in Economics and Business Science, Universidad Autónoma, Madrid. Commercial Technician and State Economist. Holds a State Commercial Diploma.</p> <p><i>Currently:</i></p> <p>Advisory Committee Member of Madrid's Escuela Técnica Superior de Ingenieros de Minas. Advisory Committee Member of the Fundación para Estudios sobre la Energía.</p> <p><i>Formerly:</i></p> <p>Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin. Director General of Administration and International Relations for the Organisation of Ibero-American States for Education, Science and Culture (OEI). Member of the Nuclear Safety Council (CSN) and member of a number of national and international commissions, representing the CSN before the OECD and other bodies. Director General of Mines. Chairman of the National Mining Safety Commission. Director General of the Institute for Restructuring of the Mining Industry and Alternative Development, reporting to the Ministry of Industry and Energy. Director General of Promotion for ICEX. Member and representative of Spain</p>

	<p>on various EC committees and workgroups.</p> <p>Member of the Organising Committee of the European Union Conference on Stakeholders.</p> <p>Member of the Organising Committee of the 2nd Forum on the Implications of the New Recommendations of the International Commission on Radiological Protection.</p> <p>Director of the Sociedad Estatal de Participaciones Industriales (SEPI) (1997-2000).</p> <p>Director of Hulleras del Norte (HUNOSA).</p> <p>Director, Banco Exterior de España.</p> <p>Director, Compañía Logística de Hidrocarburos (CLH).</p> <p>Director of FOCOEX.</p> <p>Director of Tabacos de Filipinas.</p> <p>Director of SIRECOX.</p> <p>Director of the Centro para el Desarrollo Tecnológico Industrial (CDTI).</p> <p>Director of the Fábrica Nacional de Moneda y Timbre (FNMT).</p> <p>Director of Tabatrade.</p> <p>Director of the Banco Exterior de España, in the UK.</p> <p>Author of numerous articles and publications related to her professional activity.</p> <p>Speaker at conferences and events related to her professional activity in Spain, Europe, America and Asia.</p>
<p><b>Carmen Gómez de Barreda Tous de Monsalve</b></p>	<p><b>Profile</b></p> <p>20 May 1968.</p> <p><b>External independent director (lead independent director)</b></p> <p>Doctorate in Economics and Business Science from the Universidad Pontificia de Comillas (ICADE).</p> <p>Masters in Business Administration, Executive MBA, IESE, Universidad de Navarra.</p> <p><i>Currently:</i></p>

	<p>Director General of the Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES)</p> <p><i>Formerly:</i></p> <p>Commercial manager of the cogeneration area for the Commercial Division of Enagás.  Head of international, petrochemical and marketing departments for Repsol.  Service Development Manager for Unión Fenosa.  Deputy Director of Oil Markets at the 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).  Delegate to various international working groups dealing with energy regulation and security of supply (ARIAE and CEER). Lecturer and presenter in various Masters' degree programmes (University of Barcelona, ICAI, Cesma, Club Español de la Energía).</p>
<p><b>Juan Iranzo Martín</b></p>	<p><b>Profile</b></p> <p>26 November 1956.</p> <p>Graduate in Economics and Business Science from the Universidad Complutense de Madrid.  Doctor in Economic Science from the Universidad Complutense de Madrid.</p> <p><i>Currently:</i></p> <p>Professor of Applied Economics at UNED.  Deacon-Chairman of the College of Economists of Madrid.  CUNEF lecturer.  Academic member of the Real</p>

	<p>Academia de Doctores de España.  Director of the Grupo SANJOSE.  Director, FERTIBERIA.  Member, Advisory Board, CAP GEMINI.  Chairman of the Club de Consejeros de España.  Lecturer on the Master's "Advanced Corporate Responsibility Management Programme" at the Instituto de Empresa IE Business School.  Member of the Health Advisory Council and the Permanent Council Commission of the Ministry of Health, Social Services and Equality.  Member of Advisory Board of Fujitsu.  Expert member of Spain's Consejo Económico y Social (CES).</p> <p><i>Formerly:</i></p> <p>Management Control Manager for ENUSA.  External Relations Manager and Economist at the Fundación FIES, CECA.  Director of Studies at the Instituto de Estudios Económicos (IEE).  Director General of the Instituto de Estudios Económicos (IEE).  Lecturer in Economic Structure at various universities.  Member of the Special Commission for Transparency and Safety in Financial Markets and Listed Companies (Aldama Commission).  Member of the CAJA MADRID Control Commission.  Vice-chairman of the Instituto de Estudios Económicos (IEE)</p>
<p><b>María José García Beato</b></p>	<p><b>Profile</b>  27 May 1965</p> <p>Law Degree, Universidad de Cordoba. State attorney.</p> <p><i>Currently:</i></p> <p>Non-director, vice-secretary of the</p>

	<p>Board of Directors of Banco Sabadell, S.A.  General Secretary and member of the Management Committee of Banco Sabadell, S.A.  Secretary of the Board of Directors of Sabadell United Bank (Miami).  Trustee of the Fundación Española de Banca para Estudios Financieros (FEBEF).  Secretary of the Trustees of the Fundación de Estudios de Economía Aplicada (FEDEA).  Member of the advisory council of the publisher Wolters Kluwer España, S.A.  Trustee of the Fundación Wolters Kluwer.  Advisory Council Member of the Fundación Cajasur.  Director, Banco Gallego S.A.</p> <p><i>Formerly:</i></p> <p>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 Council of Europe Data Protection Consultative Committee.  Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for the CERES (Spanish certification of electronic transactions) project.  State Attorney in the Sub-division of the State Legal Services Division.  State Attorney in the Communications Secretariat at the Development Ministry.  Cabinet Chief at the Ministry of Justice.  Director, Infoinvest, S.A.,  Director, Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA),  Director, Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI),  Director, Sociedad Estatal Correos y Telégrafos, S.A.,  Director, Banco Guipuzcoano, S.A.</p>
--	--

	Director, Banco CAM, S.A. Undersecretary for Justice. State Attorney in the Audiencia Nacional (National Court) Legal Department. Head of Legal Services, Banco Sabadell. Secretary of the Board of Directors of Retevisión, S.A. Secretary of the Board of Directors of Banco Urquijo, S.A.
--	---

<b>Total number of Independent Directors</b>	7
<b>% of the board</b>	63.7%

**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 on their duties as an independent director.*

Name or corporate name of director	Description of the relationship	Reasons
-	-	-

**OTHER EXTERNAL DIRECTORS**

Name or corporate name of director	Committee notifying or proposing appointment
-	-

<b>Total number of other external directors</b>	-
<b>% of the board</b>	-

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

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained

-	-	-
---	---	---

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

Name or corporate name of director	Date of change	Previous category	Current category
-	-	-	-
-	-	-	-

**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			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
<b>Executive</b>	0	0	0	0	0	0	0	0
<b>Proprietary</b>	0	0	1	1	0	0	33.33	33.33
<b>Independent</b>	4	4	2	2	57.14	57.14	28.57	28.57
<b>Other external</b>	0	0	0	0	0	0	0	0
<b>Total:</b>	4	4	3	3	57.14	57.14	61.9	61.9

**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.</p> <p>The Board of Directors has taken on board best practice recommendations on gender diversity. At the end of 2013, four (36.4%) of its members were women, and 40% of the Company's external directors were women. This puts the Company at the cutting edge of the IBEX 35.</p> <p>As part of its ongoing commitment to adopt corporate governance best practices, the Board of Directors assumed the obligation of</p>

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.

At its meeting on 29 October 2013, 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 first time, this 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. 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.

The Audit Committee is chaired by a woman, and 66.66% of its members are female. The Corporate Responsibility and Governance Committee also includes one woman, representing 33.33% of the Committee members.

In 2013, the Board of Directors agreed to create the role of lead independent director (CIC, after the Spanish acronym). 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. The basic role of the CIC, as required by the latest developments in international corporate governance practices, is to organise the joint positions of independent directors and to provide a communications channel between the Chairman of the Board of Directors, and the Board and its committees. 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 2013, four (36.4%) of its members were women, and 40% of the Company's external directors were women. This puts the Company at the cutting edge of the IBEX 35.</p> <p>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, in 2013 the Audit Committee was chaired by a woman, and 66.66% of its members were women. The Corporate Responsibility and Governance Committee also includes one woman, representing 33.33% of the Committee members.</p> <p>In conclusion, all of the proposed appointments of female directors to the Board and its committees have been approved by the Board.</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 Bylaws, 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 Bylaws, 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 December 31, 2013, 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 - Alfredo Parra García-Moliner (who, as noted elsewhere, resigned as a proprietary director in January 2014), Francisco Ruiz Jiménez and Fernando Fernández Méndez de Andés- representing 27.3 % of the directors.

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 Law.

**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:**

Name or corporate name of shareholder	Reason
-	-

*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

Name or corporate name of shareholder	Explanation

**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:**

Name of Director	Reasons for resignation
-	-

No directors resigned in 2013. However, at its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-Moliner from his position as proprietary director of Red Eléctrica Corporación, S.A. in representation of the Sociedad Estatal de Participaciones Industriales (SEPI); the Director explained the reason for his resignation being that he had left SEPI (which he represented within the Board of Directors). He notified the other directors of this in writing, pursuant to article 22.4 of the Regulations of the Board of Directors.

The Chairman of the Board of Directors, José Folgado Blanco, notified the Corporate Responsibility and Governance Committee of his forthcoming 70th birthday (3 April 2014), and formally surrendered his post to the Board of Directors, pursuant to article 22.2.a) of the Regulations of the Board of Directors. Following a report by the Corporate Responsibility and Governance Committee issued at its 16 January 2014 meeting, the Board of Directors unanimously resolved at its meeting on 28 January 2014 to ratify Mr Folgado Blanco as a director and the Chairman of the Board of Directors, as it is clear that he retains in full the conditions and faculties needed to exercise his responsibilities on the Board of Directors of Red Eléctrica Corporación, S.A., as demonstrated by the value he has contributed to the Company as its Chairman. Mr Folgado's mandate as a director, approved by the General Shareholders' Meeting, is in force until 19 April 2016.

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

Name or corporate name of director	Brief description
José Folgado Blanco	<p>At its meeting on 26 April 2012, the Company's Board of Directors unanimously agreed:</p> <p><i>“To delegate to the Chairman of the Board of Directors of RED ELÉCTRICA CORPORACIÓN, S.A., Mr. José Folgado Blanco, pursuant to the provisions of Article 249 of the current Corporate Enterprises Law,</i></p>

	<i>Article 149 of the Mercantile Registry Regulations, Article 22 of the Corporate Bylaws and Article 5 of the Regulations of the Board of Directors, all powers of the Board of Directors that may be delegated by law and pursuant to the Bylaws.”</i>
--	--

**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:**

<b>Name or corporate name of director</b>	<b>Corporate name of the group entity</b>	<b>Position</b>
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 director, 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:**

<b>Name or corporate name of director</b>	<b>Name of listed company</b>	<b>Position</b>
Juan Iranzo Martín	Grupo San José	Director
Fernando Fernández Méndez de Andés	Bankia, 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

<b>Explanation of rules</b>
-----------------------------

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 analyze 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.

As set out in the Regulations, two further limitations were introduced when the revision of the Regulations was approved in March 2013:

- 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	

Remuneration and evaluation of senior officers	X	
Risk control and management, and the periodic monitoring of internal information and control systems	X	
Dividend policy, as well as the policies and limits applying to treasury stock	X	

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

Board remuneration (thousands of euros)	2,364
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	—
Total board remuneration (thousands of euros)	2,364

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

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

Total remuneration received by senior management (thousands of euros)	664
---	-----

**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:**

Name or corporate name of director	Name or corporate name of significant shareholder	Position
Alfredo Parra García-Moliner	State-owned Industrial Holdings Company (SEPI)	General Secretary and Secretary of the Board
Francisco Ruiz Jiménez	State-owned Industrial Holdings Company (SEPI)	Director General

However, at its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-

Moliner from his position as proprietary director in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

*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:*

Name or corporate name of director	Name or corporate name of significant shareholder	Relationship
-	-	-

**C.1.18 Indicate whether any changes have been made to the board regulations during the year:**

Yes

No

Description of amendments
<p>At its meeting on 13 March 2013, the Board of Directors approved modifications to the Regulations of the Board of Directors to bring them into line with certain legislative changes affecting listed companies, some changes to leading corporate governance practices, particularly internationally, and, finally, to introduce improvements to the organisation and operations of the Board of Directors and its Committees. These reforms were based on a report from the Corporate Responsibility and Governance Committee, pursuant to article 3 of the current Regulations. The Committee prepared the proposed reforms and a report justifying these.</p> <p>The main changes to the Regulations of the Board of Directors were:</p> <ul style="list-style-type: none"> <li>- Adaptation to the latest legislative modifications following approval at the 2011 and 2012 Annual General Shareholders' Meetings of the modifications to the Corporate Bylaws and the Regulations of the General Shareholders' Meeting.</li> <li>- The incorporation of new corporate governance practices, including the adoption of measures to counterbalance the concentration of power in the Chief Executive and the Chairman of the Board of Directors of the Company and other measures, where applicable, for the separation of the two posts. The measures are as follows: <ul style="list-style-type: none"> <li>a) The possibility of creating a Lead Independent Director and a procedure for this director's appointment and removal, and regulation of the director's areas of</li> </ul> </li> </ul>

competence and responsibilities.

b) The introduction of specific measures for the personal separation of the posts of Chief Executive and Chairman of the Board of Directors.

c) 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.

These modifications also formalised certain practices already carried out at the Company, particularly: the annual assessment of the Board of Directors, its Committees and the Chairman, by an independent expert; empowering the Board to approve a policy for the appointment and appraisal of Board candidates; and the adaptation of the statutory and regulatory composition of the Committees of the Board of Directors to the requirements demanded by investors, strengthening their independence through a mandatory majority of independent directors.

**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 Bylaws.

Article 20 of the Corporate Bylaws 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 Board Chairman Succession Plan, in accordance with the latest international corporate governance practices.

This Plan was applied for the first time in 2012, organizing the handover of the position of the Company's Executive Chairman from Luis Atienza Serna to José Folgado Blanco, who had been on the Board as an independent Director since 2008. This facilitated the handover by identifying the independence of judgement, knowledge of the Company and sector, previous experience, leadership skills and ability to work with the electricity regulator of the new Chairman.

## **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 since 2012.

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 top 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 (provision added to the Regulations in 2013).

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.

The annual assessment of the Board of Directors in 2011 and 2012 was carried out by the consultancy *KPMG*. However, when *KPMG Auditores* were appointed as the external auditors for the Company and the Group at the 2013 General Shareholders' Meeting, the Board, at the proposal of the

Corporate Responsibility and Governance Committee, considered it opportune to appoint a different consultant for the annual assessment of the Board. Following bids from a number of leading candidates, this task was awarded to *PriceWaterhouseCoopers*.

### **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 Bylaws. The Board of Directors must not propose the removal of an Independent Director prior to the completion of the term of office specified in the Bylaws for which the Director was appointed, unless there is just cause and subject to a report from the Corporate Responsibility and Governance Committee. 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.

In 2013, two further cases were added to the aforementioned article 22.2 of the Regulations, in order to ensure the attendance and dedication of Directors in performance of their responsibilities: when they repeatedly fail to attend Board meetings (letter h) and 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 (letter i).

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 X

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
<p>The final report of conclusions and recommendations on the external assessment of the Board of Directors and its Committees and the Chairman for 2012 by KPMG was presented to the Board of Directors at its meeting on 27 June 2013.</p>
<p>The assessment of the Board has been entrusted to external specialists advisors for several years, providing the Board with a more objective and independent view of the issues assessed.</p>
<p>There were a number of major changes to the Company's Board of Directors in 2012. On 31 December 2012, only four of the eleven directors who had been in position 12 months previously were still in post. KPMG regards this as making the process particularly rich as, in its opinion, it has enabled the Company to combine the experience of the longest-serving directors with the fresh outlook and approach of the directors who joined during the year.</p>
<p>The main development in the assessment process, according to KPMG, was the introduction of a section specifically dedicated to assessing the performance of the Company's chief executive. As a result, the Chairman of the Board of Directors was assessed in two ways: firstly, the directors assessed his year as leader of the Company's governing body; and secondly, they assessed his performance as the Company's chief executive. The Chairman's performance was assessed as being satisfactory in both cases.</p>
<p>In the assessment process, the Directors highlighted the Board's rigorousness, independence of judgement and commitment to leading corporate governance practices. They also highlighted the importance of their responsibilities for the Company's reputation and the confidence of capital markets. Many of the directors stated a desire to seek opportunities to intensify interaction between the Board of Directors and investors, as recommended in international best practices.</p>
<p>Some opportunities for developments highlighted by the Company in this process are:</p> <ul style="list-style-type: none"><li>- <u>Assessing the need for business-orientated training.</u> Directors periodically receive relevant, high-quality training to refresh their knowledge of technical areas of the Company's business. The proposal suggests that Board training in relation to issues of the greatest technical complexity should be based on the <i>business case</i> for the Company.</li></ul>

- To be more in touch with investors. The Company is fully committed to good Corporate Governance and meeting the demands of its foreign shareholders. In terms of dialogue and commitment, the information available to the Board of Directors on the Company's reputation with investors could be enhanced, and opportunities could be sought to provide investors with deeper knowledge of the Board of Directors.

- Recalibrate the importance of various issues on the agenda. As previously mentioned, the Board of Directors underwent significant change in 2012, and this required a minimal period of adaptation. Now that this is complete, it is now appropriate to focus on issues relating to the Company's strategic focus, risks and competitive positioning.

- To be more in touch with managers. As the senior management body for the Company, the Board of Directors is responsible for supervision and control of the work and performance of the Company's management team. The culture of knowledge, guidance and supervision of the work of managers could therefore be reinforced to enhance technical and material knowledge of the Company, improving the Board's supervision of the management team. This should be based on a clear distinction between the responsibilities of managers and directors.

In 2013, the Ordinary General Shareholders' Meeting appointed KPMG *Auditores* as the Company's external auditor. The Board, at the proposal of the Corporate Responsibility and Governance Committee, considered it opportune to appoint a different consultant for the annual assessment of the Board. Following bids from a number of leading candidates, this task was awarded to *PriceWaterhouseCoopers*, which is currently completing the process.

The new Board assessment process for 2013 was designed and based on interviews with the Company's Directors, who gave their opinions in reply to questions about the quality and effectiveness of the functioning and performance of the Board of Directors and the Company's other governance bodies, including its chairman, committees, lead independent director and the secretary of the board of directors. This process is still underway. For further details, refer to the Company's Annual Corporate Governance Report, which is prepared voluntarily and is available on the corporate website, as explained in section H.1.

#### **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 processed or is brought to trial for any of the crimes mentioned in Article 213 of the Corporate Enterprises 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.*

Section C.1.26 describes a recent case relating to this article.

**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
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.

Notwithstanding the above, the Board of Directors has, in the Regulations of the Board of Directors, reserved the responsibilities and powers that it considers strategic and which cannot be delegated. These were expanded in the 2013 modifications of the Regulations, as described in this Section. The responsibilities that cannot be delegated cannot be carried out by the Chief Executive or the Board Committees.

In particular, pursuant to article 5.5 of the Regulations of the Board of Directors, the Board is *"...obliged to discharge the following responsibilities directly and may not delegate any of them other than those stipulated in section b) ii) below which, if an extraordinary Board meeting cannot be held pursuant to Article 17 of these Board Regulations, may be adopted for reasons of urgency by the Company Chairman and ratified subsequently by the Board, without prejudice of the validity of the acts vis-à-vis third parties pursuant to Article 234 of the Corporate Enterprises Act:*

a) *Approval of the general policies and strategies of the Company and the Group and, in particular:*

i) *Approval of the Strategic Plan or Business Plan of the Company and its Group, as well as the budget and the annual management objectives, and monitoring of the degree of compliance throughout the year.*

ii) *Approval of the investment and financing policy.*

iii) *Approval of the definition of the structure of the group of companies.*

iv) *Approval of the corporate governance policy.*

v) *Approval of the corporate responsibility policy.*

vi) *Approval of the compensation policy and the policy for evaluating the performance of Senior Managers.*

vii) *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 risk control and management policy shall identify at least:*

- *The various types of risk (operating, technological, financial, legal, reputation, etc.) faced by the Company and the Group, contingent liabilities and other off-balance sheet risks being included among the financial or economic risks.*

- *The setting of the risk level deemed by the Company to be acceptable.*

- *The measures foreseen for mitigating the impact of the risks identified, should they materialize.*

- *The internal information and control systems that will be used for controlling and managing the aforementioned risks, including contingent liabilities or off-balance-sheet risks.*

*viii) Approval of the dialogue policy with investors and shareholders.*

*ix) Approval of the policy for appointing and assessing candidates for the Board of Directors.*

*x) Approval of the policy for assessing the performance of both the Board and the Directors.*

*xi) Approval of the policy for disseminating Corporate Governance practices, Corporate Responsibility, remunerations and risk administration.*

*xii) Approval of the policy for arranging non-audit services, with the External Auditor.*

*xiii) Approval and, if appropriate, proposal to the General Shareholders' Meeting of the dividend policy, as well as the policy on treasury stock and, in particular, its limits.*

*xiv) Those specifically stipulated in these Regulations.*

*b) The following decisions:*

*i) Directors' compensation and, in the case of executive directors, additional compensation for their executive functions and other terms with which their contracts must comply.*

*ii) Financial information which the Company, due to being listed, must make public on a periodic basis or which it must provide to the markets' regulatory or supervisory bodies for publication.*

*iii) All manner of investments or transactions which, due to their high amount or special characteristics, are strategic by nature, unless they are to be approved by the General Shareholders' Meeting.*

*iv) The creation or acquisition of holdings in special-purpose vehicles or entities with their registered office in countries or territories classed as tax havens, and any other transaction and operation which could be detrimental to the Group's*

*transparency.*

- c) *The authorization of related-party transactions, as defined by the legislation in force at any given time, that are significant or outside the normal business operations of the Company and must obligatorily be reported to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee.*

*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.*

- d) *The 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 top 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 functioning of the Board, its Chairman, the Company's top executive and its Committees shall be evaluated by an independent third-party expert at least once every two years.*

*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 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 prior authorization.

The above notwithstanding, as the roles of the Chairman and chief executive of Red Eléctrica fall on the same person, following international corporate governance recommendations, in 2013 new counterweight measures were introduced, modifying the Regulations of the Board of Directors and the Corporate Bylaws.

The changes to the Regulations of the Board of Directors made on 13 March 2013 are:

- 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.

- The introduction of specific measures for the personal separation of the posts of Chief Executive and Chairman of the Board of Directors.
- 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 Bylaws 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, the Chairman of the Board need not at the same time be the chief executive, and one or more chief executives other than the chairman may 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 existence of the Audit Committee and of the Corporate Responsibility and Governance Committee -entirely composed of external members of the Board of Directors, the majority of whom and the Chairman of which are independent, specializing in matters within their sphere of responsibility- reinforces the specific control exercised over the basic and strategic responsibilities of the Board of Directors, which in no event will be performed exclusively by the Chairman.

**Indicate, and 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

No

**Explanation of rules**

The 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.

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 Bylaws and the Regulations.

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.

Furthermore, pursuant to article 25 bis of the Corporate Bylaws 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.

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.

Moreover, management of the assessment process is expressly attributed to the Corporate Responsibility and Governance Committee, in coordination with the lead independent director (article 9 bis and 16 of the Regulations of the Board of Directors).

The Board meeting held on 13 March 2013 resolved to create the post of Lead Independent Director, as proposed by the Corporate Responsibility and Governance Committee. The Annual General Shareholders' Meeting of 18 April 2013 proceeded to amend the Corporate Bylaws in this regard. The Board Meeting held on 28 May 2013 appointed Carmen Gómez de Barreda Tous de Monsalve as Lead Independent Director, for a period of three years.

**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.

<b>Description of differences</b>		
<b>Adoption of resolutions</b>		
<b>Description of the resolution</b>	<b>Quorum</b>	<b>Type of majority</b>
Any resolution	Half plus one of the Directors present in person or by proxy (art.18 of the Regulations)	Absolute
Modification of the Regulations of the Board of Directors, pursuant to article 3.4 of the Regulations	Idem	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 22.2f) of the Regulations.	Idem	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 Bylaws establishes that any Director may grant a proxy to another Director, in writing and specifically for each meeting, to attend and vote on his behalf at meetings of the Board of Directors, providing that the proxy is granted to a Director of the same type as the Director represented (Article 28.2 b) and 18 of the Regulations of the Board of Directors).

The Chairman will be tasked with organizing the debate, ensuring and encouraging the participation of all Directors in Board deliberations, and putting the items to a vote once he deems them to have been sufficiently debated. Each Director, present in person or by proxy, will have one vote.

Article 21 of the Bylaws and Article 18 of the Regulations of the Board of Directors establish that resolutions will be adopted by 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

Description of requirements

**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 Bylaws and Article 18.3 of the Board Regulations).

**C.1.26 Indicate whether the Bylaws 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

There is a specific obligation in relation to the age limit for directors, but this is not a cause of automatic removal. Pursuant to article 22.2.a) of the Regulations of the Board of Directors, Directors must surrender their post to the Board of Directors and formalise, if the latter considers appropriate, the appropriate resignation when they reach seventy (70) years of age.

The Chairman of the Board of Directors, José Folgado Blanco, notified the Corporate Responsibility and Governance Committee of his forthcoming 70th birthday (3 April 2014), formally surrendering his post to the Board of Directors, pursuant to article 22.2.a) of the Regulations of the Board of Directors. Taking into account the report by the Corporate Responsibility and Governance Committee issued at its 16 January 2014 meeting, the Board of Directors unanimously resolved to ratify him as a director and the Chairman of the Board of Directors, as it is clear that he retains in full the conditions and faculties needed to exercise his responsibilities on the Board of Directors of Red Eléctrica Corporación, S.A., as demonstrated by the value he has contributed to the Company as its Chairman. Mr Folgado's mandate as a director, approved by the General Shareholders' Meeting, is in force until 19 April 2016.

**C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors:**

Yes  No

Maximum number of years in office	12
-----------------------------------	----

As with all other Company Directors, Independent Directors hold office for four years.

As already indicated in Section C.1.19 above, unless there is sufficient cause and subject to a report by the Corporate Responsibility and Governance Committee, the Board of Directors may not propose the removal of any External Directors before the end of the term for which they were appointed.

Notwithstanding the foregoing, as provided in Article 7.2 c) *in fine* of the Regulations of the Board of Directors, Independent Directors may not remain in office for a continuous period of more than twelve years.

This accords with the twelve year time limit established for independent directors in Order ECC/461/2013, of March 20, determining the content and structure of the annual report on corporate governance, the annual report on directors' compensation and other instruments of information of listed companies.

**C.1.28 Indicate whether the Bylaws 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 Bylaws.

Where a Director cannot, with just cause, attend the Board meeting(s) to which he has been called, he must give instructions to the Director that is to represent him, 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.

**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:*

Number of meetings of the Executive or Delegated Committee	-
Number of meetings of the Audit and Compliance Committee	12
Number of meetings of the Nomination and Remuneration Committees	12
Number of meetings of the Nomination Committee	-
Number of meetings of the Remuneration Committee	-
Number of meetings of the xxx Committee	-

**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	124
% of attendances of the total votes cast during the year	86.71

**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:*

Name	Position

**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 Audit Committee plays a particularly important role, as it continuously monitors the process of preparing the economic and financial information sent to the market supervisory bodies, thereby increasing the likelihood that there will be no qualifications in the annual auditors' reports.

Since the formation of the Company in 1985, it has not been subject to any qualifications in the audits of its financial statements. This demonstrates the utmost accuracy, reliability and sufficiency of the financial statements of the Company and its consolidated Group since its formation, guaranteeing at all times the maximum transparency in its reporting.

**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 May 4 1995. The Committee could not report on his appointment as it did not exist at that time.

	Yes	No
Does the Nomination Committee propose appointments?	X	
Does the Nomination 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 Bylaws and Article 10.3 b) of the Regulations of the Board of Directors, the duties of the Secretary of the Board of Directors include ensuring compliance by the Board of Directors and its Committees with the Corporate Bylaws, the Regulations of the 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 Bylaws and the corresponding Article 10.3 c) of the Regulations of the Board of Directors provide that the Secretary of the Board of Directors is responsible for "<i>ensuring that the Company's corporate governance rules and the actions of the Board of Directors are in line with the good corporate governance recommendations in force from time to time</i>".</p>

**C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.**

At its Annual Shareholders' Meeting on 19 April 2012, the Company adapted its Corporate Bylaws to bring them into line with the aforementioned Law 12/2010, which aims to reinforce the competencies of the Audit Committee to verify the independence of the external auditor. 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 Audit Committee is the body within the Board of Directors responsible for the relationship with external auditors. In this regard, the Audit Committee assists the Board of Directors in monitoring the independence of the Company's external auditor.

Pursuant to the power set out in Article 23.2 of the Corporate Bylaws, Article 14.3 b) of the Regulations of the Board of Directors, in relation to the independence of external auditors, tasks the Audit Committee with establishing 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 audit 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 Audit Committee must ensure that the Company: (i) discloses any change of auditor to the CNMV as a material event and, if applicable, any disagreements with the outgoing auditor; and (ii) complies with the rules in force regarding the provision of non-audit services, limits on concentration of the auditor's business and, in general, all other rules established to safeguard the independence of the auditor. In the event of resignation of the auditor, the Audit Committee must examine the underlying circumstances.

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 audit 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 audit firm for non-audit services, seeking to minimise contracting of such services as far as possible.

Without prejudice to the obligation set out in article 45 for the Audit Committee to report on services provided to the Company and the Group by the external auditors other than those related to the audit (and which are regularly reported to the markets through section

C.1.37 of this report), the Company's approach is not to contract any such services from the auditor from the moment that they are appointed as such by the General Shareholders' Meeting, unless such contracting is justified by exceptional circumstances, in which case it will be duly explained in the Company's annual disclosures.

The Company frequently makes all manner of presentations to financial analysts and investment banks to report on the key economic and financial highlights of the Group and its business performance.

These presentations are regularly attended by the most prominent industry professionals and experts. After these presentations, all participants are offered the opportunity to be included on a list of entities that periodically receive relevant Company information of interest to them.

All presentations to analysts are sent to the Spanish CNMV beforehand so that they may be consulted by the markets on its website. The presentations are also posted immediately on the Company website.

The main purpose of the Investor Relations Department, which reports to the Company's Corporate Economic and Financial Department, is to act as a channel for communications with financial professionals and institutional investors, and to handle their inquiries.

**C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor:**

Yes  No

Outgoing auditor	Incoming auditor
PriceWaterhouseCoopers (PwC)	KPMG Auditores, S.L.

*Explain any disagreements with the outgoing auditor and the reasons for the same:*

Yes  No

Explanation of the disagreements

Pursuant to article 14.3.a) of the Regulations of the Board of Directors, the Audit Committee is responsible for proposing the

appointment of the external auditor to the Board of Directors, seeking to ensure the same auditor is used by all Group companies.

In 2012, pursuant to an internal policy of the Red Eléctrica Group that recommends the external auditor be changed on a regular basis in accordance with best international Corporate Governance practices, the Audit Committee proposed changing the auditor PriceWaterhouseCoopers (PwC), which had acted as the external auditor of Red Eléctrica and its consolidated Group for the previous seven years.

Leading international audit companies were invited to submit bids for the work, and at the end of the process the work was awarded to KPMG Auditores, S.L., the new external auditor of Red Eléctrica Corporación S.A and its Group. The 2013 General Shareholders' Meeting approved the appointment of KPMG Auditores, S.L. as the external audit firm.

**C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:**

Yes

No

	Company	Group	Total
Amount of non-audit work (in thousands euros)		128	128
Amount of non-audit work as a % of the total amount billed by the audit firm		39%	39%

[note: Work other than audit includes 128 thousand euros (39% of the total) corresponding to work that had been committed to in years prior to the appointment of the external audit firm].

**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 Audit Committee to explain the content and scope of those reservations or qualifications.**

Yes

No

Explanation of reasons
-

**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	1	1

	Company	Group
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	3.6%	7.7%

**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> <ol style="list-style-type: none"> <li>it is not necessary for the proper performance of the functions entrusted to the Directors;</li> <li>the cost thereof is not reasonable in view of the significance of the problem and the assets and revenues of the Company; or</li> <li>the technical assistance sought may be adequately provided by Company experts or technical personnel, or has been entrusted to other external experts.</li> </ol> <p>Articles 13.5 and 15.6 of the Regulations of the Board of Directors provide that the Audit Committee and the Corporate Responsibility</p>

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

Procedures
<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 relevant level within the organization or make arrangements to allow Directors to conduct the desired examination and inspection <i>in situ</i>.</p> <p>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.</p>

Both the Audit Committee and the Corporate Responsibility and Governance Committee may access any kind of Company information or documentation that they may need for the better performance of their duties, as indicated in section 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
<p>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.</p> <p>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.</p> <p>If a Director is indicted or a decision is rendered to bring him to trial for any of the crimes referred to in Article 213 of the Corporate Enterprises Law, the Board shall review the matter as soon as possible and, in light of the specific circumstances, shall decide, as provided for in the preceding paragraph, whether or not it is appropriate for the Director to remain in office.</p>

**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

Name of Director	Criminal proceedings	Remarks

*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.*

Yes

No

Decision/action taken	Justified explanation
-	-

**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 tender offer 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
Executive director	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.
Director General	There are safeguard or golden handcuff clauses for members of the Company's current senior management. These clauses are in line with standard market practices and cover the termination of the employment relationship, providing for indemnification of one year's

	salary, unless the applicable legislation provides for a higher amount. The contracts containing these clauses were approved by the Appointments, Compensation and Corporate Governance Committee and they were duly notified to the Board of Directors.
--	--

*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>	X	

	<b>YES</b>	<b>NO</b>
<b>Is the General Shareholders' Meeting informed of such clauses?</b>	X	

In the case of the executive director, the Company submits the Board remuneration policy and annual report to the General Shareholders' Meeting for approval. As this sets out the main terms and conditions of the chief executive's contract, it may be considered that the General Shareholders' Meeting approves these terms and conditions when it approves this report.

The contract of the executive director was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's Board of Directors.

There are safeguard or golden parachute clauses for members of the Company's current senior management identified in section C.1.16. These clauses are in line with standard market practices and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless the applicable legislation provides for a higher amount. The contracts containing these clauses were approved by the Appointments, Compensation and Corporate Governance Committee and they were duly notified to the Board of Directors.

## **C.2 Board committees**

### **C.2.1 Give details of all the board committees, their members and the proportion of proprietary and independent directors:**

#### **EXECUTIVE OR DELEGATE COMMITTEE**

Name	Position	Type
-	-	-

% of executive directors	-
% of proprietary directors	-
% of independent directors	-
% of other external directors	-

#### AUDIT COMMITTEE

Name	Position	Type
Paloma Sendín de Cáceres	Chairwoman	Independent
Maria Ángeles Amador Millán	Member	Independent
Fernando Fernández Méndez de Andés	Member	Proprietary

% of executive directors	-
% of proprietary directors	33.33%
% of independent directors	66.66%
% of other external directors	0

#### NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Type
Juan Iranzo Martín	Chairman	Independent
Carmen Gómez de Barreda Tous de Monsalve	Member	Independent
Alfredo Parra García-Moliner <sup>3</sup>	Member	Proprietary

% of executive directors	-
% of proprietary directors	33.33%
% of independent directors	66.66%
% of other external directors	0%

#### NOMINATION COMMITTEE

Name	Position	Type
-	-	-

<sup>3</sup> At its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-Moliner from his position as proprietary director in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

--	--	--

% of executive directors	-
% of proprietary directors	-
% of independent directors	-
% of other external directors	-

**REMUNERATION COMMITTEE**

Name	Position	Type
-	-	-

% of executive directors	-
% of proprietary directors	-
% of independent directors	-
% of other external directors	-

\_\_\_\_\_ COMMITTEE

Name	Position	Type
-	-	-

% of executive directors	-
% of proprietary directors	-
% of independent directors	-
% of other external directors	-

**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							
	Year t		Year t-1		Year t-2		Year t-3	
	Number	%	Number	%	Number	%	Number	%
<b>Executive committee</b>	--		--		--		--	
<b>Audit committee</b>	66.66		66.66		66.66		66.66	
<b>Nomination and Remuneration Committee</b>	33.33		33.33		25.00		25.00	
<b>Nomination Committee</b>	-		-		-		-	
<b>Remuneration Committee</b>	-		-		-		-	

XX committee	-	-	-	-
--------------	---	---	---	---

**C.2.3 Indicate whether the Audit 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 and findings of the audit programme, and checking that senior management are acting on its recommendations	X	
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.**

**I. AUDIT COMMITTEE**

The Audit Committee is comprised of three members, pursuant to Article 23 of the Corporate Bylaws and Article 13 of the Board of Directors Regulations, which establish a minimum of three and a maximum of five members, all of whom are external directors and with the majority being independent directors, and appointed for a three-year term.

The Chairman of the Committee is elected by its members from among the Independent Directors who sit on the Committee, and the Committee Secretary is the Secretary of the Board of Directors.

Throughout 2013, the Committee was comprised of External Directors, with a majority of Independent Directors. The composition of the Company's Audit Committee on 31 December 2013, and on the date of approval of this report, is:

<b>Director</b>	<b>Position</b>	<b>Type of Director</b>
Paloma Sendín de Cáceres	Chairwoman	External Independent
María Ángeles Amador Millán	Member	External Independent
Fernando Fernández Méndez de Andés	Member	External proprietary (SEPI)

The Directors on the Committee are highly qualified to hold their positions, with broad professional experience, having held positions of the highest responsibility outside Red Eléctrica, in functions related to those entrusted to the Committee.

In this regard, Article 13 of the Board of Directors Regulations now includes the provision that the Committee shall be formed by a majority of Independent Directors, all of whom shall be appointed on the basis of their knowledge and expertise in accounting and/or auditing.

The Committee Secretary is Mr. Rafael García de Diego Barber, General Secretary and Secretary of the Company's Board of Directors.

Pursuant to the Regulations of the Board of Directors, the Committees minute the resolutions adopted in their meetings and make these minutes available immediately to all Board Members through the Directors' website. The activities of the Committees are reported at the next Board Meeting held.

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 relation to the review of the Annual Financial Statements of the Company and of its Group for the fiscal year 2012; in 2013, the external auditor explained the philosophy and processes of the audit carried out on Group's companies. The Committee agreed to report favourably on the financial statements for fiscal year 2012.

Also, at the Annual General Shareholders' Meeting held on 18 April 2013, the Board of Directors proposal, following a report by the Audit

Committee, to appoint KPMG Auditores S.L as the new auditor of the financial statements of both the parent company and the Consolidated Group, for an initial period of 3 years, was approved. The previous auditing firm PriceWaterhouseCoopers (PwC) had carried out the functions of external auditor to Red Eléctrica Corporación, S.A. and its Consolidated Group for the last seven years. At the end of 2012, pursuant to an internal policy of the Red Eléctrica Group that recommends the external auditor be changed on a regular basis in accordance with the best international Corporate Governance practices, the Audit Committee decided to issue a tender to appraise a possible change to the external auditors of the Company and its Consolidated Group; a process which ended with the report and proposal to name KPMG Auditores S.L as the Group's new external auditor, which was approved by the General Shareholders' Meeting.

➤ **Functions**

Under Article 23 of the Corporate Bylaws and Article 14 of the Regulations of the Board of Directors, the functions of the Audit Committee include the provision of support to the Board of Directors in its function of supervision of the process of preparing economic and financial information, the internal control of the Company, the independence of the external auditor, compliance with statutory provisions and internal regulations, provisions relating to the Company's shareholders and any powers expressly attributed to it by the Board of Directors.

The modification to the Regulations of the Board of Directors approved in March 2013, encompasses the requirements of Additional Provision Eighteen of the Securities Market Law, adapts it to article 23.1 of the Corporate Bylaws and to the best international practices of Corporate Governance and also includes certain functions being undertaken, de facto, by the Committee.

Of these groups of powers, outlined after the review was carried out, the following are of particular note:

1. In relation to economic and financial information, responsibility for supervising the preparation, presentation and integrity of the financial information of the Company and, where appropriate, its Group, ensuring that legislative requirements are taken into account, the consolidated group is adequately defined, and the applicable accounting principles and methods are correctly applied.

In addition, a duty to review and report to the Board of Directors in advance on economic and financial information that the Company must disclose and send to the market supervisory bodies has been established. In line with standard practice, the Committee must ensure that any monthly, quarterly or half-yearly financial statements are prepared using the same accounting methods as the annual financial statements and, where it sees fit, it may ask the external auditor to conduct a limited review. The functions of annually supervising the Investment Plan, the Budget, and the year-end schedule, for submission to the Board of Directors, and periodically monitoring the Company's treasury stock transactions, have now been added.

2. In relation to internal control and risk management systems, to supervise the internal audit function to ensure the sound working of the internal reporting and control systems. The Audit Committee has also been assigned the functions of: monitoring the independence and efficacy of the internal audit function; supervising and controlling the process of selection, appointment, reappointment and removal of the head of the internal audit function, as well as its action plans; supervising and controlling the resources allocated to the internal audit function, including its budget; receiving periodic information on its activities; and verifying that senior management of the Company and its Group is acting on the conclusions and recommendations in its reports.

The head of internal audit must present an annual work program to the Committee, report directly on any incidents arising during its implementation and submit an activities report at the end of each year. In addition, they must supervise and control the budget of the internal audit function each year.

Additionally, the Committee must periodically supervise internal control and risk management systems, so that the main risks are identified, managed and appropriately disclosed. In particular, the Regulations now include supervision responsibility for systems involved in the issue of financial information; discussing with the external audit firm any significant weaknesses in the internal control system identified during the audit; and the periodic supervision of both the Company and Group Corporate Insurance Programme. A final important function, already included in the Regulations, is to supervise the procedure established by the Board to enable staff to report any potentially significant irregularities, particularly financial or accounting irregularities, they may detect at the Company.

3. To establish appropriate relationships with the auditors in order to receive information on any issues that may jeopardize their independence, for their examination by the Committee, and any other issues relating to the audit process, as well as other communications provided for in audit legislation and audit standards. In any case, they must receive each year from the auditors written confirmation of their independence from the Company or from entities directly or indirectly related to the Company, 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 current rules regarding the provision of non-audit services, limits on concentration of the auditor's business and, in general, any other rules established to safeguard the independence of the auditors. In the event of resignation of the external auditor, it must review the underlying circumstances, and verify that senior management of the Company and of Red Eléctrica de España, S.A.U. is acting on the recommendations of the external auditor. The changes to these functions in the Regulations have been made to adapt them to the wording of Article 23 of the Corporate Bylaws.

4. In relation to compliance with legal provisions and internal regulations, the Regulations establish an obligation on the Audit Committee to supervise compliance with the Internal Code of Conduct on the Securities Market and with the functions of the Oversight Body provided in that Code, periodically informing the Corporate Responsibility and Governance Committee of the degree of compliance with the Code and of any incidents that occur; to annually evaluate compliance with the rules of the Internal Code of Conduct on the Securities Market; and to review compliance with the actions and measures resulting from reports or inspections by the supervisory and control authorities of the securities market. Finally, and as a recent addition to the Regulations, the Committee must supervise the Criminal Risk Prevention Programme, submit to the Board of Directors any proposals for improvement it considers appropriate, and, prior to its submission to the Board of Directors, supervise the preparation of the annual compliance report by the Programme's control and supervisory body.

5. In relation to the Company's shareholders, the Committee is responsible for entertaining and, if applicable, responding to any initiatives, suggestions or complaints raised by the shareholders within the scope of its jurisdiction and for reporting to the General Shareholders' Meeting, as applicable, on any issues raised that fall within its jurisdiction. Furthermore, a requirement to submit to the Board of Directors all proposals and reports, within the scope of its responsibilities, to be 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:

To produce an annual activities report, which will be included in the Annual Corporate Governance Report; to approve an Action Plan and a schedule of meetings for the year; and to report to the Board of Directors on any related-party transactions and any transactions creating or acquiring interests in special-purpose vehicles or entities domiciled in countries or territories that are considered tax havens, and also on any transactions and operations that could impair the Group's transparency. It is also responsible under the provisions of the Internal Code of Conduct on the Securities Market for oversight functions relating to the Company's treasury share transactions.

## **II. CORPORATE RESPONSIBILITY AND GOVERNANCE COMMITTEE.**

The Regulations of the Board of Directors provide that the Corporate Responsibility and Governance Committee will be as determined by the Board of Directors and comprise a minimum of three and a maximum of five members, all External Directors, and with the majority being Independent Directors.

This provision, which has now been included in the Regulations of the Board of Directors, incorporates best Corporate Government practices, which recommend the non-participation of executive

directors on this Committee and that the majority of members be independent directors.

Of note here is the decision adopted in 2012 by the Board of Directors, which took place before the modification of the Regulations of the Board of Directors, to adjust the composition of the Corporate Responsibility and Governance Committee and, for the first time, to have no participation by the Company's Executive Director.

The Committee Chairman shall be an Independent Director elected by its members and the Secretary shall be the Secretary of the Board of Directors.

Committee members are appointed and removed by the Board of Directors at the proposal of the Chairman of the Board. Committee members hold office for a period of three years, and may be reappointed and stand down when they cease to be Directors or when so resolved by the Board of Directors, subject to a report by the Corporate Responsibility and Governance Committee. The Chairman is appointed by the Committee for a period of three years and may be reappointed after one year has elapsed since he vacated office.

During 2013, the Corporate Responsibility and Governance Committee was composed of three Directors: two external independent directors and one proprietary director. In January 2014, one of the members of the Committee resigned as proprietary director, as explained later in this report.

In 2012, the Board of Directors approved a proposal from the Chairman to reduce the number of members of the Corporate Responsibility and Governance Committee from 4 to 3, in order to foster and promote good Corporate Governance policies and to make management more efficient and dynamic. The meeting also appointed Juan Iranzo Martín, Carmen Gómez de Barreda Tous de Monsalve and Alfredo Parra García-Moliner as Committee members for a term of 3 years, with Mr Iranzo Martín as its Chairman.

The composition of the Committee at 31 December 2013 was as follows:

<b>Director</b>	<b>Position</b>	<b>Type of Director</b>
Juan Iranzo Martín	Chairman	External Independent
Carmen Gómez de Barreda Tous de Monsalve	Member	External Independent

Alfredo Parra García Moliner <sup>4</sup>	Member	External proprietary (SEPI)
---	--------	-----------------------------

The Committee members have been appointed for a term of three years by the Board of Directors at the proposal of its Chairman, following a report by the Corporate Responsibility and Governance Committee.

All of the Committee members have demonstrated the skills and knowledge needed to perform the functions entrusted to the Committee, pursuant to article 12 of the Regulations of the Board of Directors.

Independent directors have the majority vote on the Corporate Responsibility and Governance Committee, and its chairman must be an Independent Director.

On 25 May 2013, Ms Gómez de Barreda was named lead independent director by the Board of Directors, at the proposal of this Committee.

Pursuant to the Regulations of the Board of Directors, the Committees minute the resolutions adopted in their meetings and make these minutes available immediately to all Board Members through the Directors' website. The activities of the Committees are reported at the next Board Meeting held.

#### ➤ **Functions**

Pursuant to Article 24 of the Corporate Bylaws, the basic responsibilities of the Corporate Responsibility and Governance Committee are as follows:

- a) To report on -and, in the case of Independent Directors, make- in advance, all proposals submitted by the Board of Directors to the Annual General Shareholders' Meeting for the appointment or removal of Directors, including in cases of co-optation. To propose the appointment of the lead independent director, to the Board of Directors.
- b) To propose the remuneration policy for Directors and Senior Executives to the Board of Directors and ensure its observance.
- c) To assume such reporting, supervising and proposing functions in the area of Corporate Governance as may be determined by the Board of Directors.

The above basic responsibilities are detailed in Article 16 of the Regulations of the Board of Directors.

---

<sup>4</sup> At its meeting held on 28 January 2014, the Board of Directors accepted the resignation tendered by Alfredo Parra García-Moliner from his position as proprietary Director of Red Eléctrica Corporación, S.A. in representation of the Sociedad Estatal de Participaciones Industriales (SEPI).

With the modification to the Regulations of the Board of Directors in March 2013, the functions of this Committee have been adapted to best international corporate governance practices; certain legal provisions have been introduced, such as the reference to the Annual Board of Directors' Remuneration Report, regulated in article 61 ter of the Securities Market Law, also including 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 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 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 submission to the Board of Directors, on proposals for the appointment or removal of all the positions on the Board of Directors and its Committees.  
(The three following functions are part of the new Regulations).

d) To draft an independence statement form, to be submitted to the Board of Directors, which must be signed and delivered annually by the Independent Directors.

e) To verify each director's status, for the purpose of the pertinent explanations from the Board of Directors at the General Shareholders' Meeting which must appoint or ratify their appointment, as well as a record of this 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) To 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 an orderly and well-planned way.

l) To ensure a sufficient balance of men and women when covering new vacancies.

2. In relation to compensation:

a) To propose to the Board:

i) The compensation 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 compensation for the Board of Directors, which shall include the part corresponding to the fixed compensation and the variable compensation linked to compliance with the predetermined and quantifiable strategies and objectives established by the Board, at the proposal of the Corporate Responsibility and Governance Committee, before the start of each financial year and linked to actions envisaged in the Company's Strategic Plan (new function introduced with the changes to the Regulations).

iii) The individual contractual compensation for executive directors and the other terms of their contracts.

iv) The basic terms of the contracts of senior managers of the Company and of Red Eléctrica de España, S.A.U.

b) To consult the Chairman of the Company, especially where dealing with matters relating to Executive Directors and Senior Managers of the Company and of Red Eléctrica de España, S.A.U.

c) To ensure compliance with the approved compensation policy applicable to the Board of Directors, the executive directors and, where applicable, the Senior Management and the other management team of the Company and of 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 compensation applicable to them. (a function carried out since the changes to the Regulations, along with the introduction of the two following functions).

d) To submit to the Board the proposed Annual Report on Directors' Compensation, 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 the 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 of the measures to be taken in the event of breach.

b) To authorise Directors to use corporate assets.

4. In relation to the rules and actions on Corporate Governance:

a) To supervise compliance with the Rules on Corporate Governance, submitting 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 the proposals of the Audit Committee in relation to the modification of the Internal Rules of Conduct on the Securities market.

(The six following functions were introduced as part of the changed Regulations).

c) To approve the proposed Annual Corporate Governance Report to be submitted to the Board of Directors.

d) To submit to the Board of Directors the proposed resolutions and reports within its powers to be submitted to the General Shareholders' Meeting.

e) To direct the Board's assessment process and, in particular, regarding the Board Chairman and the Company's top executive, in coordination with the lead independent director.

f) To approve an annual improvement program on Corporate Governance and periodically assess its compliance.

g) To periodically review the Company's Corporate Criminal Risk Prevention Program, in coordination with the powers attributed to the Audit Committee.

h) To submit to the Board of Directors a Knowledge and Information Program 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 analyze the actions and proposals made or resolved on in the area of Corporate Responsibility by the organisational units responsible and, as the case may be, to issue and submit to the Board the corresponding report.

c) To periodically assess the advances and results obtained by the Company in Corporate Responsibility (new function introduced with the changes to the Regulations).

d) To approve an Annual Report on the management of Corporate Responsibility, which shall be submitted to the Board of Directors.

e) To approve an Annual Report on the management of Corporate Ethics, which shall be submitted to the Board of Directors. (new function introduced with the changes to the Regulations).

6. Other functions:

a) To keep the Board of Directors informed of its activities and to draw up an annual report on activities which must be included in the Annual Corporate Governance Report, and approve a guiding Action Plan and 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.

**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.**

At its meeting on 13 March 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 Audit 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.**

Competent body
<p>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 authorization 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 be reported to the securities markets, pursuant to the aforementioned legislation, following a report by the Audit Committee.</p> <p>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.</p> <p>The Audit Committee is responsible for reporting in advance to the Board on related-party transactions requiring authorisation from the Board of Directors 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.</p>

Procedure for approval of related-party transactions
<p>Pursuant to articles 5.5 and 14.6 of the Regulations of the Board of Directors, in May 2010 the Board of Directors, at the proposal of the Audit Committee, approved a policy on controlling related-party transactions and defined objective parameters for controlling related-party transactions, material or otherwise, recurring annual related-party transactions, and related-party transactions requiring mandatory</p>

notification to the markets. The Audit Committee monitors this policy annually and reports to the Board of Directors.

In accordance with the provisions of Article 39 of the Regulations of the Board of Directors, the Board of Directors formally reserves the right to be informed of any material transaction 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 Audit 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:**

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of euros)

**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:**

Name or corporate name of director or senior manager	Name or corporate name of related party	Relationship	Type of transaction	Amount (in thousands of euros)

**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:**

Corporate name of the group company	Brief description of the transaction	Amount (in thousands of euros)
Red Eléctrica del Sur (REDESUR) (*)	Transactions of no material significance, carried out in the ordinary course of the business between enterprises, which are included merely for information purposes.	461

(\*) Transactions to 9 May 2013, the date on which control of the Company was acquired.

**D.5 Indicate the amount from related-party transactions.**

Transactions with related parties amounted to €4.721 million.

**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 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 paragraph, as regards Conflicts of Interest, Board Members must comply with the conditions and requirements contained in the Corporate Bylaws 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 Directorate-General of Administration and Finance (following the Company's internal reorganisation, now the Corporate Economic and Financial Department), which will act in collaboration with the Secretary of the Board of Directors as regards any legal issues resulting from the application or interpretation of the Code. In addition, the Oversight Body has been entrusted with the general functions of ascertaining, registering, disseminating and monitoring compliance with the obligations and duties established in the Internal Code of Conduct. The Oversight Body will have all necessary powers to perform the duties entrusted to it in the Internal Code of Conduct and must periodically report to the Audit Committee on the degree of compliance with the Code and on any incidents that may occur.

Pursuant to article 13 of the Internal Code of Conduct on the Securities Market, the Audit Committee is responsible for supervising compliance with the Internal Code of Conduct and the performance of the functions of the Oversight Body, the person responsible for the material transaction and the Office of the Secretary of the Board of Directors contemplated therein, and for the internal resolution of any such questions and conflicts raised by parties subject or temporarily subject to the Code as may be submitted to the Committee by the Oversight Body. The Audit Committee will evaluate compliance with the Internal Code of Conduct on an annual basis and will adopt any appropriate measures for its optimum implementation and improvement. It is also responsible for proposing to the Corporate Responsibility and Governance Committee, for referral to the Board of Directors, any amendments it deems necessary in light of the Board's

commitment to 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 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.

As already mentioned, pursuant to Article 39 of the Regulations of the Board of Directors, the Board of Directors formally reserves the right to be informed of any significant transaction between the Company and a significant shareholder unless, due to its nature and terms, it falls under the jurisdiction of the General Shareholders' Meeting.

#### **D.7 Is more than one Group company listed in Spain?**

Yes

No

*Identify the listed subsidiaries in Spain:*

<b>Listed subsidiaries</b>
-

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:

Yes

No

<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</b>
-

## **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<sup>5</sup>.
- General Procedure of Integrated Risk Control and Management<sup>6</sup>.

As part of the internal policy of continuous improvement of processes, in 2012, the audit firm *Ernst & Young* carried out a review contrasting the system of Risk Management at Red Eléctrica Group with the international standard ISO 31000, concluding that:

*“As a result of our review, we can conclude that the design of the Risk Management System of Red Eléctrica Corporación applicable to its different activities is in line with the principles established in the ISO 31000 Standard on Principles and Guidelines.”*

## **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.

<sup>5</sup> The existing policy is the 3rd edition, approved by the Board of Directors on 24/07/2008. It is currently being updated.

<sup>6</sup> The existing procedure is the 4th edition and was approved by the Board of Directors on 17/01/2013.

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 twice a year, notwithstanding the information it receives on a regular basis from the Audit Committee as part of the ongoing monitoring process carried out by the Committee.

The **Audit Committee** has been given the powers to periodically supervise the risk management system, to ensure that the main risks are adequately identified, managed and disclosed.

The **Management Committee**, comprised of executives from the key strategic areas of the Company, is responsible for:

- Promoting implementation of the integrated risk management policy.
- Monitoring the Risk Map, and agreeing on the appropriate actions to facilitate achievement of global objectives.

The **Global Risk Control and Regulation Department**, which reports to the Office of the Chairman, is, through the **Internal Audit and Risk Control Department**, responsible for managing the process of identification, analysis, evaluation and periodic control of risks. This department provides reports for the Management Committee, Audit Committee and the Board of Directors. Amongst the information provided, the following is of particular note:

- Material risks map
- Material risks files
- High-level risks monitoring report
- Risk reports by general management and corporate governance departments

The **organisational units** are involved in the Risk Management System within the process of identification, analysis and evaluation, together with the **Internal Audit and Risk Control Department** and in the implementation of action plans.

Along with the responsibilities assigned to the Group's various units and control bodies, the Risk Management System establishes the information

flows, the actions guaranteeing the systematic monitoring and control of risks through a series of activities and products, and the specific methodology to measure the level of risk.

**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, 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 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, 147 risks have been identified, the distribution of which by types is:

**1. High:**

- 2 regulatory risks
- 5 operational risks

- 0 business risks
- 0 market risks
- 0 counterparty risk

## **2. Medium:**

- 3 regulatory risks
- 46 operational risks
- 3 business risks
- 0 market risks
- 1 counterparty risk

## **3. Low**

- 8 regulatory risks
- 67 operational risks
- 2 business risks
- 5 market risks
- 5 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.

### **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.**

##### **1. 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.

In 2013, one event resulted in unavailability, with the energy not supplied (ENS) being classified as impact level 4 in the Risks Map matrix.

- Underlying circumstances:

In general, these events were caused by third parties and meteorological phenomena.

The level 4 event in 2013 was due to equipment failure.

- Functioning of control systems:

The control systems functioned adequately, as shown by the transmission network availability index, which stood at 98.13% in 2013 (provisional), compared to 97.78% in 2012 (definitive).

The Company has contracted insurance policies to limit the potential impact of these events on the income statement.

**2. Second risk arising in the year and impact:**

Application of the new methodology for calculating transmission remuneration set out in RDL 9/2013, of 12 July, resulted in 2013 remuneration being €75 million lower than the amount published in the 2013 Prices Order (Level 5 impact in the Risks Map matrix).

- Underlying circumstances:

This was due to in-depth reform of the electricity sector. RDL 9/2013, of 12 July, introduced urgent measures to ensure the financial stability of the electricity system.

- Functioning of control systems:

Not applicable.

**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.*

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.

- *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 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 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.*

The Red Eléctrica Group (henceforth, REE for the purposes of this section) has, as part of its internal control systems, a System for Internal Control of Financial Reporting (hereinafter, ICFR), to meet requirements relating to the reliability and transparency of the process of generating financial information. REE's ICFR is compliant with legal requirements and standards in the area of internal control (including those relating to the COSO framework). It has also followed the recommendations in the "Report on the System for Internal Control of Financial Reporting" drawn up by the Internal Control Working Group on financial reporting at financial institutions set up by the National Securities Market Commission (CNMV), which defines a set of principles and best practices grouped into 5 components and detailed in 16 indicators.

Adequate functioning of the ICFR involves, amongst other things, recording all economic events that occur and incorporating the effects of these whilst assessing them pursuant to applicable legislation.

The ICFR in place at REE involves the entire Organization by implementing and monitoring the functioning of different controls in the generation of financial information on a regular basis. The ICFR dates back to 2008 as part of a voluntary project. It has adapted to all legislative requirements, and has been independently reviewed since 2008.

The basic structure of REE's ICFR is formally documented in the "REE Internal Control Manual". The main elements characterizing this ICFR are set out below:

- General controls: controls across the entire organization associated with the 16 indicators, which, as applicable, have a particular use at the level of the REE ICFR. Connected with these general controls, there are "indicator assessment items" (IEIs) which provide a broader picture of the area of overall control in the ICFR.
  - Controls designed in the processes, deployed in:
    - Areas subject to ICFR:
      - Acquisitions.
      - Fixed Assets.
      - Inventories.
      - Revenues.
      - Payroll and Staff.
      - Financial Management.
      - Support Services.
      - Financial Reporting.

These areas are in turn divided into cycles and sub-cycles. All of these are duly complied with.

All of these areas, cycles and sub-cycles are formally documented in the Corporate Modeller computer tool. This tool facilitates administration for all managers involved through a web environment to which the managers have access.

In 2013, aspects relating to fraud control and prevention were incorporated into the model, so as to avoid, among others, risks relating to inappropriate use of the Company's assets and intentional errors in its financial statements.

## **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.**

REE's control environment has been designed on the basis of various different elements that make for an internal control atmosphere conducive to the generation of full, reliable and appropriate financial information, anticipating, as necessary, the possible existence of irregularities and/or errors in order that they may be remedied. Specific Departments, Corporate Bodies and organizational units develop, maintain and supervise everything connected with the model, throughout the entire process of preparing financial information.

Specifically, pursuant to Article 5.5 vii) of the Regulations of the Board of Directors, the 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 risk control and management policy shall identify at least the following: the various types of risk (operating, technological, financial, legal, reputation, etc.) faced by the Company and the Group, contingent liabilities and other off-balance sheet risks being included among the financial or economic risks; the setting of the risk level deemed by the Company to be acceptable; the measures foreseen for mitigating the impact of the risks identified, should they materialize; and the internal information and control systems that will be used for controlling and managing the aforementioned risks, including contingent liabilities or off-balance-sheet risks.”

Further to the explanations given in section 1.2, different organizational levels at REE are in charge of maintaining, implementing and supervising the ICFR.

In this regard, of note are the steps taken by the Corporate Economic and Financial Department, as the area responsible for designing, implementing and operating the ICFR and ensuring that it is efficient and up-to-date, and by Internal Audit, which, with assigned responsibility from the Audit Committee and through its annual action plan, helps to assess the efficiency of the ICFR and periodically reports any weaknesses detected.

Finally, the 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 Division, through its Human Resources Department, is responsible for defining the basic structure of the organization, defining the different levels of authority and the consequent levels of responsibility. All of this aims to maintain a design an organisational structure that is implemented, reviewed and updated constantly.

In addition, the Corporate Economic and Financial Department, the Corporate Affairs Division, the Corporate Communication and Corporate Responsibility Department, and the Office of the Secretary to the Board of Directors take an active part in helping to draw up other benchmark internal documents, such as the "Revised Text of the Corporate Bylaws", the "Internal Code of Conduct on the Securities Markets", the "Corporate Responsibility Manual" and the "Code of Ethics: values and commitments" which, among other aspects, further define the general framework of the organizational structure, at the level of duties and of responsibilities. As a complement to these benchmarks for internal rules, the ICFR Action Guide attributes the special characteristics that may be required in the area of the Internal Control of Financial Reporting System, including the functions of maintaining, updating and supervising the ICFR at each of the levels of responsibility described, emphasizing that the Corporate Economic and Financial Department has delegated some of its tasks to the Economic Department and this to the Accounting Information and Administration Department.

In addition, additional rules and regulations have been defined that are binding at the level of the main corporate bodies, and at the level of senior management, together with compulsory procedures at the different stages of tasks relating to preparing, reviewing and approving the Financial Statements of companies belonging to REE.

This entire set up aims to insure, inter alia, that the organizational structure provides a sound model in the ICFR environment.

- **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.**

REE 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.

In this regard, REE has established several elements that refer to the "Internal Code of Conduct on the Securities Markets", "Code of Ethics: values and commitments" and "Corporate Responsibility Policies of Red Eléctrica de España S.A.U.", setting the ethical values and principles of the Company as regards compliance with law, integrity, responsibility and transparency, use of data and information

systems, among others. In order to achieve the highest level of involvement of REE employees, the Company has implemented a system for detecting and handling breaches and reports of breaches of the code of ethics. This system provides a completely anonymous way of informing senior management of any improper practices or other aspects connected with the preparation of financial information. REE ensures that any reports made remain entirely anonymous.

The "Code of Ethics: values and commitments" is approved by REE's Board of Directors and 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 REE - directors, management and employees. Every person in our organisation receives 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: values and commitments" 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. It was most recently updated in June 2013. 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.

The number of corporate values has also been reduced to five in the latest version (trustworthiness, responsibility, respect, leadership and creativity and environmental consciousness). This rationalisation aims to make it easier to incorporate our corporate values, whilst retaining traceability of the ten values in the previous code.

Likewise, the rules of behaviour have been reinforced through the incorporation of ten new commitments: eradication of forced labour; the right to privacy; prohibition of gambling and gaming; prohibition of contributions to political parties; control of donations and sponsorship; prohibition of money laundering; control of activities in tax havens; responsible relationships with lobbyists; preservation of biodiversity; and protecting ethnic minorities.

The final document was submitted for review and approval to the Corporate Responsibility Committee, the Management Committee, the Corporate Responsibility and Governance Committee and, finally, the Board of Directors, last 28 May.

In terms of financial information, the "Code of Ethics: values and commitments" 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 Ethical Code sets out rules of behaviour, establishing guidelines for action to be followed by everyone in the Group in their work and in all professional situations in which they represent the company.

- **"Whistle-blowing" channel, for the reporting to the Audit 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. It establishes that

"Any employee of the Group or member of a stakeholder group will be able to report presumed non-compliance with the Code of Ethics, for ethical, mercantile, financial or accounting infractions, etc. The system for receiving and dealing with possible breaches and reports of breaches of the Code of Ethics will be managed by the Ethics Manager and the stakeholders Ombudsman in conjunction with the Chairman of the Red Eléctrica Group and the chairpersons of the Audit and the Corporate Responsibility and Governance

Committees. This person, appointed by the Chairman of the Company will act independently. He or she will report to the Management Committee, the Audit Committee and the Corporate Responsibility and Governance Committee at the end of every financial year in the form, manner and frequency with that established in the management process.

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.”

- **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 for all REE staff, based on the training plan prepared by the relevant Department. In particular, it organises specific training in accounting subjects, internal control and risk management; this is organized for staff in the Accounting Information and Administration, Internal Control and Internal Audit units, as required.

In the first instance, the various training programs are coordinated with the units that request them, and are then proposed and subsequently approved to be carried out in the current year.

Ongoing checks are carried out, at both department and employee level, assessing the number of training hours accumulated throughout the year.

Among the training given to staff, the following training programs are particularly noteworthy: “Updates to the National Chart of Accounts”, “International Financial Reporting Standards”, “Analysis of Financial Statements”, “Systems for internal control over financial reporting”, etc.

## **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 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.**
- **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 process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**
- **Which of the company's governing bodies is responsible for overseeing the process.**

The risk identification process is part of the fundamental core of analysis of the risks associated with the process of preparing financial information. Resting on this core are the "Integrated Risk Management Group Policies", which serve as a reference point in this regard, since they set out the guiding principles by which the Company may effectively deal with uncertainty, its associated risks and opportunities, thereby improving the ability to generate value and facilitating the achievement of the Organization's goals, such as the reliability of the financial information.

In this regard, the purpose of the REE Risk Policy, as approved by the Board of Directors on July 24, 2008, is to establish principles and guidelines to ensure the systematic identification, analysis, assessment, management and control of material risks that may affect REE's objectives and activities, applying uniform criteria, within the established risk limits.

The material risks of REE are those that may significantly affect the overall objectives of REE, related to:

- Sustained creation of value over time: Sustained profit growth, which must allow appropriate returns for investors and enable the company to implement its strategy.
- The continuity and quality of the energy supply in the electricity systems: the achievement of this objective involves the management by the Spanish System Operator and is dependent on the reliability and availability of the transmission network.

- The construction of the electricity transmission infrastructure network necessary to meet future needs. Red Eléctrica, as the sole transmission company, must design, fulfil the formalities for and construct the facilities specified in energy planning. This overall objective must be achieved on a cost-effective basis. These objectives must be compatible with the social and environmental context.

The most significant risks to which the Group is exposed, and which form part of the risk control system, are:

- Regulatory, since the principal business activities of the Group are subject to regulation,
- Operational, basically arising from its assigned activities within the electricity system and the requirement to care for and protect the natural environment,
- Market, since most revenues, as well as certain expenses, may be influenced by variables such as inflation and interest rates, and
- Business and Credit (or counterparty), albeit to a lesser extent due to the lesser weight of the subsidiaries in the overall Group and existing regulation regarding invoicing and collection for transmission and operation activities.

Based on analysis of these risks, various control elements are defined under the ICFR with a view to properly covering the objectives of transparency and reliability for information free of fraudulent elements, which must govern the process of preparing the financial information. These control elements aim to provide sufficient coverage, as far as design and operations are concerned, for the following specific risks associated with the ICFR:

- Integrity risk: to ensure that no transactions go unrecorded.
- Validity risk: the transactions carried out are not valid.
- Recording risk: incorrect recording of transactions.
- Cut-off risk: transactions are not recorded in full in the period in which they accrue for accounting purposes.
- Valuation risk: transactions are valued incorrectly.
- Presentation risk: transactions are presented in a way that might lead to confusion, or include insufficient items of information for compliance with applicable reporting requirements.

- Fraud risk: particularly with regard to the problem of internal fraud in financial information, relating to fraudulent use of assets and intentional errors in the financial statements.

The Board of Directors is, via the Audit Committee, the body that ultimately has the duty of "periodically supervising the internal control and risk management systems, so that the principal risks are adequately identified, managed and disclosed", pursuant to the Board Regulations.

### F.3 Control activities

REE has a wide range of specific "Control activities" designed to reduce the risks of error or irregularity at every level of the process of preparing the financial information.

*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.**

The Board of Directors delegates to the Audit Committee "to approve the Company's internal control procedures in the areas of expenditure and investment, making the appropriate amendments, as the case may be. To supervise the internal audit function, which will ensure the sound functioning of the internal reporting and control systems and must address requests for information from the Audit Committee in the performance of its functions" and "supervise the internal control and risk management systems, so that the main risks are identified, managed and appropriately disclosed, particularly with regard to systems relating to the process of issuing financial information." ("Regulations of the Board of Directors of Red Eléctrica").

These control activities are a key element in an efficient ICFR configuration, which must be complemented by suitable design and operating procedures.

In this regard, the ICFR model sets a series of critical targets, the achievement of which, without exception, allows it to achieve reliability and transparency in the process of drawing up its financial information. Achieving this is intrinsically connected with ensuring that the control activities so defined are efficient in all their

terms, throughout the performance of these activities in all processes involved in achieving the control targets.

In this context, the control structure defined specifically in the ICFR context determines two scales of controls:

- Controls or element for assessing the indicators set by the CNMV. ("IAIs).
- Process controls.

The ICFR model is based upon the controls or elements for assessing the indicators set by the CNMV and the General Controls. These are generalised controls that directly affect the organization structure and processes of REE. Responsibility for these controls lies with Management, as follows:

- The Corporate Economic and Financial Department, through the Economic Department.
- The Office of the Secretary to the Board of Directors.
- Global Risk Control and Regulation Department (Internal Audit).
- Corporate Affairs Department (Human Resources Department).

The process controls have been integrated into all the main cycles and sub-cycles in the REE ICFR system, ensuring that REE's financial information is reliable and transparent; these controls also serve to offset risks in the processes for preparing the financial information referred to above. These control activities have been deployed throughout all areas of the ICFR model (cycles and sub-cycles).

Based on their features, these process controls may be classified:

- According to their nature:
  - o Preventive: preventing the materialization of financial risks.
  - o Detective: identifying errors after they have occurred.
  - o Corrective: rectifying errors after they have occurred.
  - o Directive (Policy): controls supported by company policies or procedures/instructions; these are usually associated with signature and formal approval requirements.
- By automation level:
  - o Manual: controls carried out directly by individuals.
  - o Semi-automatic: controls carried out by individuals and validated by "IT means", or vice versa.
  - o Automatic: "IT-based" controls.

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 at REE when recording accounting entries in the information system, and for drawing up the Financial Statements, for the purpose of ensuring a true and fair view of net 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, Financial Statements, 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.**

REE's corporate information systems play a major role in its business cycles, sustaining the systems and applications used in preparing financial information.

In this regard, elements such as the General Computer Controls ("GCCs") provide a control framework aimed at providing a reasonable level of security for the information systems that support financial reporting, and guaranteeing, as far as possible, the confidentiality, availability and integrity of information.

The objectives established in the framework of the General Computer Controls support compliance with control targets for data processing through IT means, by defining, developing, implementing and reviewing control activities regarding strategy and management of information technology (IT), managing change, be it at application or infrastructure level, controlling security and access parameters both at a logical and physical level, managing users and permissions, dealing with and scaling incidents, continuity of operations, storing and recovering data, monitoring operations, etc.

The rules governing all actions in connection with the corporate information systems are set out in the "Group Information Security Policies" and the "Information System Policies", setting out the principles to be applied for efficient management of the security of the data processed by REE's computer systems and the assets to be used in the processes. These policies reflect management's commitment to ensuring the security of data systems, which is also set out in various technical documents governing the day-to-day operations of the Corporate Information Systems and Technology Department.

Consequently, the "Group Information Security Policies" and the "Information System Policies" favour the creation of a "security framework", setting out the responsibilities and the structure of the relationship between the Requesting Units and the Corporate Information Systems and Technology Department for developing REE's Corporate Information Systems Management function.

Furthermore, as part of the information systems control objectives, a proper separation of functions has been established, which is essential for an ICFR system of the type used by REE to work efficiently, since it is vitally important to ensure segregation between persons processing financial information and the persons reviewing and/or approving them. For this reason, correct assignment of roles and profiles, for both technical staff and those in positions and functions corresponding to the business areas, are key factors in the success of the process.

**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.**

REE 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 REE at the level of its processes).

As a fundamental premise, it is general policy not to outsource any activity that is deemed to be significant and that might have a material effect on the financial statements to companies that do not belong to the Red Eléctrica Group.

In all cases, the outsourcing of such activities is set out in a service agreement, which clearly specifies the service in question and the means to be used by the service provider to provide the service.

Furthermore, REE 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. REE seeks to ensure that these policies are continuously applied by its suppliers.

#### **F.4 Information and communication**

Reporting and communication tasks throughout the process of drawing up the financial information are of particular significance in Red Eléctrica's ICFR system, as they must enable the staff involved in this process to understand the action criteria to apply, as well as the information systems used in these processes.

*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 Department is responsible for defining and resolving all issues related to the interpretation of accounting policies, providing coverage for all areas of the Company. REE 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.

The unit responsible for maintaining this manual is the Accounting Information and Administration Department, reporting to the Economic Department.

**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.**

REE has the following systems:

Internal:

- REE 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 mentioned above set out the guidelines for action and supervision applied in obtaining, analyzing and subsequently preparing the information for final approval.

- In addition, there is a specific system for the entire process of preparing the Financial Statements, where the Audit Committee, which reports functionally to the Board of Directors, takes on particular significance. The Audit 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.

External:

- At this level, REE aims 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**

The supervision and functioning of the internal control system aims to play a preventive role, through various reviews and analyses and, whenever necessary, solutions to faults in the design and/or way the model works. The rules governing the hierarchical scaling of supervision and/or notifications entrusted to it are adequately set out in the "REE ICFR Manual".

*Indicate the existence of at least the following components, describing their main characteristics:*

**F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit 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.

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 Audit Committee, in relation to ultimate control over the ICFR model, delegated by the Board of Directors, and carried out through the Internal Audit function.
- Through the function delegated to it by the Audit 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 Audit 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 Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

The objectives defined by REE's Audit Committee with respect to the supervision of the functioning of the System include ensuring that the auditor, the Internal Audit function and other experts can report to 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**

REE has submitted its ICFR to a voluntary review since 2008. These reviews were performed by Deloitte, S.L until 31 December 2012, and have been performed by PriceWaterhouseCoopers since 1 January 2013.

## **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.**

## **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.

At 31 December 2013, REE was 100% compliant with the recommendations of the *Unified Good Governance Code*.

- 1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other 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  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 Bylaws, with votes taken on all articles or groups of articles that are materially different.**

Compliant  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  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  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 Audit 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 X 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.1.1*

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 Bylaws 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 X    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 X    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 X    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 X    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 Bylaws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.**

*See section: C.1.41*

Compliant X    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 X    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 Bylaws, 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 Corporate Enterprises 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 Audit Committee mandatory under the Securities Market Law, 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 Audit 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 Audit 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. Audit 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 Audit 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 Audit 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 Audit 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 Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.**

Compliant X Explain

**47. The Audit 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 X 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 Audit Committee and the auditors should give a clear account to shareholders of their scope and content.**

*See section: C.1.38*

Compliant X 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 X 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.**

The Company has been voluntarily preparing an Annual Corporate Governance Report for several years. This report is available on the corporate website. The model, structure and content of this Report aims to meet the demands and requirements of international shareholders, who account for approximately 70% of the Company's share capital. We refer you to this Report for further information. This report, which has been prepared based on the Model attached as Annex I to CNMV Circular 5/2013, has been attached as an Official Annex to the aforementioned Annual Corporate Governance Report.

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.

The Company is not subject to any Corporate Governance legislation other than that of Spain.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on 25 February 2014.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes

No

Name or corporate name of director that has not voted in favour of the approval of this report	Reasons (voted against, abstention, non-attendance)	Explain the reasons



## **RED ELÉCTRICA CORPORACIÓN, S.A.**

Independent Assurance Report on the design and effective implementation of the Internal Control System for Financial Reporting (ICFR)

31 December 2013

*PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, Spain  
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 913 083 566, [www.pwc.com/es](http://www.pwc.com/es)*

1

Comm. Reg. of Madrid, sheet 87,250-1, folio 75, volume 9,267, book 8,054, section 3  
Registered in the Official Registry of Auditors of Account (R.O.A.C.) with number S0242 – tax ID no. (CIF): B-79  
031290



**INDEPENDENT ASSURANCE REPORT ON THE DESIGN AND EFFECTIVE  
IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM FOR FINANCIAL  
REPORTING (ICFR)**

To the Board of Directors of Red Eléctrica Corporación, S.A.:

We have verified, with reasonable assurance, the design and effective implementation of the Internal Control System for Financial Reporting (hereinafter "ICFR") described in the attached document of Red Eléctrica Corporación, S.A. and subsidiaries (hereinafter the "Red Eléctrica Group") for the year ended 31 December 2013. The aforesaid system is based on the criteria and policies established by the Red Eléctrica Group in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control-Integrated Framework" report.

An Internal Control System for Financial Reporting is a process designed to provide reasonable assurance regarding the reliability of the financial reporting, in accordance with the applicable financial reporting regulatory framework, and includes those policies and procedures that: (i) allow maintenance in a precise manner, with a reasonable level of detail, of entries reflecting the transactions entered into; (ii) provide reasonable assurance that the transactions are entered in an appropriate manner to allow preparation of the financial reporting, in accordance with the applicable financial reporting regulatory framework and that they are entered into only in accordance with the established authorisations; and (iii) provide reasonable assurance regarding the prevention or timely discovery of unauthorised acquisition, use or sale of Group assets that could have a material effect in the financial reporting. In this regard, it must be borne in mind that, given the limitations inherent in any Internal Control System for Financial Reporting, independently of the quality of the design and operation thereof, this can only allow reasonable, but not absolute, assurance regarding the objectives pursued, for which reason there may be errors, irregularities or fraud that cannot be detected.

**Responsibility of Directors regarding the Internal Control System for Financial Reporting**

The Board of Directors is responsible for adopting appropriate measures to reasonably guarantee the implementation, maintenance and supervision of an appropriate Internal Control System for Financial Reporting, and for evaluation of its effectiveness, the development of improvements of that system and the preparation and establishment of the content of the information relating to the attached ICFR.

**Our Responsibility**

Our responsibility is limited to issuing an independent assurance report on the design and implementation of the Internal Control System for Financial Reporting of the Red Eléctrica Group, based on the work we have performed in accordance with the guidelines established in the ISAE 3000 Standard: "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standard Board



(IAASB) of the International Federation of Accountants (IFAC), for the issue of reasonable assurance reports.

A reasonable assurance engagement includes understanding the Internal Control System for Financial Reporting, evaluating the risk that there may be material internal control weaknesses, that the controls are not adequately designed or do not operate effectively, the performance of testing and evaluation of the design and implementation of that system, and performing such other procedures as may be considered to be necessary.

We believe that the evidence we have obtained provides a sufficient and appropriate basis for our opinion.

### **Procedures performed**

For the purposes of issuing this report we have applied the procedures described below:

1. Reading and understanding of the information prepared by the Red Eléctrica Group regarding the ICFR and evaluation of whether it includes all of the information required by Circular no. 5/2013 of 12 June 2013 of the National Securities Market Commission, for the purposes of the description of the ICFR in the Annual Corporate Governance Reports.
2. Review of the supporting documentation explaining the information included under the prior point, principally covering the information made directly available to those responsible for formulating the information describing the ICFR. In this regard, that documentation includes reports prepared by the Internal Audit function, Senior Management and other internal or external specialists supporting the Audit Committee.
3. Interviews with key personnel, with responsibility in the areas affected by the Internal Control System for Financial Reporting to obtain an understanding of the processes, evaluate the design thereof and verify that the control procedures described are implemented within the Red Eléctrica Group.
4. Performing selected tests, based on sampling criteria, of support documentation evidencing the effective implementation of the Internal Control System on Financial Reporting.
5. Re-execution of key controls by way of a selection of transactions in order to obtain evidence that the internal control procedures are being applied in the manner established and assure ourselves of the existence, effectiveness and continuity in the functioning of the controls throughout the period.
6. Reading of minutes of meetings of the Board of Directors, Audit Committee and other committees of the Red Eléctrica Group for the purposes of evaluating the consistency between the matters handled by them related to the ICFR and the information specified in point 1 above.



7. Obtaining the letter of representations regarding the work performed, appropriately signed by those responsible for the preparation and formulation of the information specified in point 1 above.

### **Independence**

We have performed our engagement in accordance with the independence standards required by the Code of Ethics of the International Federation of Accountants (IFAC).

### **Conclusion**

In our opinion, the Red Eléctrica Group, at 31 December 2013, in all material respects, maintains an effective Internal Control System for Financial Reporting for the period ended 31 December 2013, which is based on the criteria and policies established by Red Eléctrica Group Management in accordance the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control — Integrated Framework" report.

We also have verified that the itemisations contained in the ICFR information attached at 31 December 2013 has been prepared, in all material respects, in accordance with the requirements established by the Securities Market Act 24/1988 of 28 July 1988, amended by the Sustainable Economy Act 2/2011 of 4 March 2011, and with the National Securities Market Commission Circular no. 5/2013 of 12 June 2013 for the purposes of the description of the ICFR in the Annual Corporate Governance Reports.

This work does not constitute an audit, nor is it subject to the Restated Text of the Audit Act, approved by Royal Legislative Decree 1/2011 of 1 July 2011, for which reason we express no audit opinion on the terms contemplated in the aforesaid regulations.

PricewaterhouseCoopers Auditores, S.L.

[Illegible signature]  
Iñaki Goiriena Basualdu  
Partner

26 February 2014