



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

# OFFICIAL ANNEX

STANDARD  
FORM OF ANNEX I  
TO CNMV CIRCULAR  
7/2015 OF 22  
DECEMBER

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER





## ANNEX I

ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES

## ISSUER'S IDENTITY DETAILS

FINANCIAL YEAR END

31/12/2015

TAX ID NUMBER  
(CIF) A-78003662Company name:  
RED ELÉCTRICA CORPORACIÓN, S.A.Registered Office:  
PASEO CONDE DE LOS GAITANES, 177  
LA MORALEJA – ALCOBENDAS  
MADRIDANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES

## A OWNERSHIP STRUCTURE

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

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

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

Yes  No 

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

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	27,054,000	0	20.00%
CAPITAL RESEARCH AND MANAGEMENT COMPANY	0	4,146,246	3.07%

Name or corporate name of the indirect stakeholder	Through: name of corporate name of the direct stakeholder	% of total voting rights
CAPITAL RESEARCH AND MANAGEMENT COMPANY	CAPITAL RESEARCH AND MANAGEMENT COMPANY	4,146,246

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

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

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0	0	0.00%
MR. JOSÉ FOLGADO BLANCO	1,199	0	0.00%
MS. MARÍA DE LOS ÁNGELES AMADOR MILLÁN	0	0	0.00%



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDES	0	0	0.00%
MS. PALOMA SENDÍN DE CÁCERES	0	0	0.00%
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	0	0	0.00%
MS. MARÍA JOSÉ GARCÍA BEATO	5	0	0.00%
MS. SOCORRO FERNÁNDEZ LARREA	0	0	0.00%
MR. ANTONIO GÓMEZ CIRIA	0	0	0.00%
MR. SANTIAGO LANZUELA MARINA	4	0	0.00%
MR. JOSÉ LUIS FEITO HIGUERUELA	0	0	0.00%
MR. JOSÉ ANGEL PARTEARROYO MARTIN	10	0	0.00%
MR. JUAN FRANCISCO LASALA BERNAD	607	0	0.00%

% total of voting rights held by the Board of Directors	0.00%
---	-------

Complete the following tables on share options held by directors:

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

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

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

Yes  No

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

Yes  No

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

At the closing date of the 2015 financial year, the Company was not aware of any shareholders' agreements or covenants entailing an obligation to concertedly vote, or a common policy in the corporate management, or aimed at producing a material impact on the Company.

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

Yes  No

3

Remarks

#### 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
437,187	0	0.32%

(\*) Through:

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

Explain any significant variations

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

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

Over recent years, authorisation for delivery of treasury stock as remuneration to employees of the company and the Red Eléctrica Group has been submitted to the Annual General Meeting of Shareholders for annual renewal, even when still current. Once again, authorisation for delivery of treasury stock for another 5 years, although still current, was submitted to the Annual General Meeting of Shareholders held on 15 April 2015. The purpose of this was for the shareholders to renew the authorization granted last year and, furthermore, as a separate item on the agenda, it was also intended to establish once again a remuneration plan for employees, members of senior management and the executive directors of Red Eléctrica Corporación, S.A., which may be extended to the same collectives of the companies in its Consolidated Group in Spain, allowing part of their annual compensation to be awarded in the form of company shares, coming from treasury stock, on the same terms as last year and always within the maximum annual legal limit of EUR 12,000 per participant, which enables certain tax advantages to be enjoyed. The approval of the mentioned Plan requires a resolution with certain legally established conditions.

The Annual General Meeting of Shareholders of the Company held on 15 April 2015 gave authorization to the Board of Directors, pursuant to the provisions of Article 146 and related provisions of the Spanish Corporate

4



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Enterprises Act and other applicable legislation, for the derivative acquisition of treasury stock in Red Eléctrica Corporación, S.A. by the Company itself and by companies of the Red Eléctrica Group, directly or indirectly, and insofar as the Board of Directors considers that the circumstances so dictate, subject to the following conditions:

- The maximum number of shares to be acquired must not exceed the established legal limit, provided that the other applicable legal requirements can also be fulfilled.
- Acquisitions cannot be made for a consideration higher than the market value of the shares at the time of acquisition, or for a consideration lower than 50% of the market price at that time.
- The methods of acquisition may consist of sale and purchase, swap or any other type of transaction for consideration or without consideration, as the circumstances so advise. In the case of an acquisition free of charge, pursuant to the provisions of Article 146.4 of the Spanish Corporate Enterprises Act, the shares acquired may be partially paid up.
- Pursuant to the provisions of Article 146.1 b) of the Spanish Corporate Enterprises Act, the acquisition, including any shares previously acquired by the Company and held as treasury stock, may not have the effect of leaving net equity below the amount of capital stock plus legal reserves or restricted reserves pursuant to the By-laws.

In accordance with paragraph three of Article 146.1 a) of the Spanish Corporate Enterprises Act, the Board of Directors of the Company may use some or all of the treasury stock acquired under such 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, members of management and executive directors of the Company and companies in the Red Eléctrica Group in Spain.

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 Meeting.

Such Meeting expressly revoked and, therefore, rendered ineffective, as regards the part not used prior to the adoption of the foregoing resolutions, the authorizations for the derivative acquisition of treasury stock and the share remuneration plan approved by the Annual General Meeting of Shareholders held on 9 May 2014.

**A.9 bis Estimated floating capital**

	%
Estimated floating capital	80.00

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

Yes  No

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

**A.11 Indicate whether the Annual 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:



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



**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 ANNUAL MEETING OF SHAREHOLDERS**

**B.1 Indicate the quorum required for constitution of the Annual Meeting established in the company's By-laws. Describe how it differs from the system of minimum quorums established in the Spanish Corporate Enterprises Act (LSC).**

Yes  No

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

Yes  No

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

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

The amendment of the Corporate By-laws presents no differences to the system provided for in Articles 285 ff. of the Spanish Corporate Enterprises Act and which requires approval by the Annual General Meeting of Shareholders, with the majorities provided for in Article 194 and 201 of said Act. Act 31/2014, of 3 December, amending the Spanish Corporate Enterprises Act to improve corporate governance. The latter Act has introduced certain novelties in the majority system (Article 201 LSC). In particular, it is clarified that all resolutions will be adopted by a simple majority of votes, i.e. the resolution should obtain more votes in favour than against the present or represented share capital. For resolutions to amend the By-laws and equivalent situations (Article 194 LSC) an "absolute majority" is necessary if the quorum exceeds 50% of the share capital and two thirds of the present and represented share capital, if the quorum at second call does not reach 50% of the share capital. The reform of the LSC has had the immediate result of the amendment of the Corporate By-laws and the Regulations of the Board of Directors at the Annual General Meeting of Shareholders held on 15 April 2015. The Corporate By-laws which were in force at the time such Annual Meeting was held and applied thereto did not include any differences with respect to Articles 285 ff. LSC, requiring the approval by the Annual General Meeting of Shareholders, with the majorities

foreseen in Articles 194 and 201 LSC, in force at the time the Annual General Meeting of Shareholders was held.

Pursuant to Article 14 of the Corporate By-laws, in order for the Annual or Extraordinary General Meeting of Shareholders to be duly constituted and validly adopt resolutions for capital increases or reductions or any other amendment of the Corporate By-laws, shareholders representing at least 50% of subscribed voting share capital must be present or represented by proxy on first call, whilst 25% of subscribed voting share capital 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 Annual General Meeting of Shareholders 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 office, or to request delivery of such documents at no charge.

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

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

- o Call notices are always posted more than one month in advance, which is the established statutory period.
- o All documentation submitted for approval by the General Meeting, particularly the financial statements and the Annual Corporate Governance Report, is made available to all shareholders at the corporate registered office, on the website and at the Shareholder's Information Office.
- o A Shareholder Bulletin is published quarterly, containing the main news about the Company.
- o The items included on the agenda for the General Meeting of Shareholders are as detailed as possible.
- o 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.



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



o The Shareholder's Information Office specifically deals with requests made by shareholders. Shareholders may submit questions in writing regarding the information available to the public or notified to the competent authorities and make inquiries through the Shareholder Information Office.

o Both at the Annual General Meeting of Shareholders and at the Extraordinary General Meeting of Shareholders held in 2015, Deloitte conducted an audit on the management processes of the Annual General Meeting of Shareholders, towards improving the guarantees of shareholder rights at the Annual Meeting. The auditor's reports were published on the website as soon as the General Meetings were respectively held.

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

Date of general meeting	Attendance Data				Total
	% attending in person	% by proxy	% remote voting		
			Electronic means	Other	
09/05/2014	20.26	35.83	0.06	0.00	56.15%
15/04/2015	22.29	34.96	0.05	0.00	57.30%
17/07/2015	22.72	35.62	0.01	0.00	58.35%

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

Yes  No

**B.6 Section revoked**

**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 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 exchanges in 1999. The content of the website is updated regularly and exceeds the requirements of applicable legislation.

Under Act 25/2011, of 1 August, more prominence is given to company websites, since it introduces a new Article 11 bis to the Spanish Corporate Enterprises Act regulating the on-line site or corporate website. Said article established a duty for listed companies to have a website, approved by the General Meeting and recorded at the Commercial Registry, which is why the Annual General Meeting of Shareholders held on 19 April 2012 ratified RED ELÉCTRICA's website, which has been recorded at the Commercial

Registry. The Act also incorporates an obligation under Article 516 of the Spanish Corporate Enterprises Act for listed companies to use the website to disseminate the call notice for the General Meeting, something which Red Eléctrica Corporación, S.A. has been doing for a number of years.

The Company's website (www.ree.es), which was remodelled in 2013 after an exhaustive international benchmarking in order to improve communication channels with shareholders, 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". In 2015 the sections on Corporate Governance and Shareholders and investors of the corporate webpage were revised in accordance with Circular 3/2015, of 23 June, of the CNMV. In the part on the General Meeting of the Corporate Governance section, a new entry has been included entitled "Right to Information" containing information relating to communication channels existing between the company and its shareholders and the relevant explanations for exercising the right to information.

Furthermore, it is worth mentioning that, in fulfilment of the undertaking acquired by the Company with its investors, at present a project is being culminated for publishing the corporate governance history of the Company on the corporate webpage. The culmination thereof and, therefore, the publication of the corresponding contents on the webpage, is envisaged as being carried out in the first quarter of 2016. The publicising of the resolutions approved by the General Meeting is regulated under article 17 of the Regulations of the Board of Directors. As regards 2015 publicity matters, the following actions stand out: the live simultaneous broadcast, both in Spanish and English language, of the Annual General Meeting of Shareholders, held on 15 April 2015, and the Extraordinary General Meeting of Shareholders held on 17 July 2015, the live simultaneous broadcast, both in Spanish and English language, of the presentation of results as at the close of the financial year 2014, the live simultaneous broadcast, both in Spanish and English language, of the presentation of results for the first half of 2015, and the publication in English of the call announcement, from the day it was published, and of the proposals of resolutions submitted to the approval of the General Meetings, as well as all documentation relating to the same, including the Annual Corporate Governance Report at the Annual General Meeting of Shareholders and the Report on the process of the separation of the positions of chairman of the Board of Directors and chief executive primer (managing director) of the company at the Extraordinary General Meeting of Shareholders. In 2015, as in previous years, the Electronic Shareholders' Forum was set up for the Annual and Extraordinary General Meetings. Such Forum, created by Red Eléctrica Corporación, S.A. on its webpage - www.ree.es - on the holding of its General Meetings, was in response to the need established in the final paragraph of article 117.2 of the Securities Market Act 24/1988, of 28 July, introduced by Act 12/2010, of 30 June, and by article 539.2 of the consolidated text of the Spanish Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2 July. The said tool was incorporated into the Regulations of the General Meeting of Shareholders, in article 8.4 thereof, after its approval by the Annual General Meeting of Shareholders held on 13 April 2011. The purpose of this Forum is to facilitate communication between the shareholders of Red Eléctrica, in

order to publish proposals as a supplement to the agenda in the Meeting call, make requests for adhesion to such proposals, present initiatives for reaching the percentage for exercising a minority right established by law or make offers or requests for voluntary representation. The firm intention is to continue improving and adapting the webpage corporative permanently, as a live instrument for communication, dialogue and commitment to the shareholders, in application of the Corporate Governance Policy of the Company.

## C COMPANY MANAGEMENT STRUCTURE

### C.1 Board of Directors

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

Maximum number of directors	13
Minimum number of directors	9

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

Name or corporate name of director	Representative	Category of Director	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE		Independent	Director	19.04.12	19.04.12	Resolution of General Meeting
MR. JOSÉ FOLGADO BLANCO		Executive	Chairman, CEO	22.05.08	19.04.12	Resolution of General Meeting
MS. MARÍA ANGELES AMADOR MILLÁN		Independent	Director	26.05.05	18.04.13	Resolution of General Meeting
MS. PALOMA SENDÍN DE CÁCERES		Independent	Director	19.04.12	19.04.12	Resolution of General Meeting
MR. ANTONIO GÓMEZ CIRIA		Independent	Director	09.05.2014	09.05.2014	Resolution of General Meeting
MR. SANTIAGO LANZUELA MARINA		Proprietary	Director	29.07.2014	15.04.2015	Resolution of General Meeting
MS. MARÍA JOSÉ GARCÍA BEATO		Independent	Director	29.11.12	18.04.13	Resolution of General Meeting
MS. SOCORRO FERNÁNDEZ LARREA		Independent	Director	09.05.2014	09.05.2014	Resolution of General Meeting

MR. FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	Proprietary	Director	19.04.12	19.04.12	Resolution of General Meeting
MR. JOSE LUIS FEITO HIGUERUELA	Independent	Director	13.02.2015	15.04.2015	Resolution of General Meeting
MR. JOSE ANGEL PARTEARRO YO MARTIN	Proprietary	Director	22.12.2015	22.12.2015	Co-optation
MR. JUAN FRANCISCO LASALA BERNAD	Executive	Managing Director	17.07.2015	17.07.2015	Resolution of General Meeting

Total number of Directors	12
---------------------------	----

Indicate any Board members who left during this period:

Name or corporate name of director	Status of the director at the time	Leaving date
MR. FRANCISCO RUIZ JIMENEZ	Proprietary	24.11.2015

C.1.3 Complete the following tables on board members and their respective categories:

#### EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the company
MR. JOSÉ FOLGADO BLANCO	CHAIRMAN
MR. JUAN FRANCISCO LASALA BERNAD	MANAGING DIRECTOR

Total number of Executive Directors	2
% of the board	16.67%

#### EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
Mr. José Ángel Partearroyo Martín	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
Mr. Fernando Fernández Méndez de Andés	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)
Mr. Santiago Lanzuela Marina	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)

Total number of proprietary directors	3
---------------------------------------	---



**TITLE I**  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



**TITLE II**  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



**TITLE III**  
THE YEAR  
2015 IN  
RED ELÉCTRICA



**TITLE IV**  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

**OFFICIAL ANNEX**  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



% of the board	25.00%
----------------	--------

#### INDEPENDENT EXTERNAL DIRECTORS

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

MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE

##### **Profile:**

Born 20 May 1968.

Degree in Economics and Business Science from Universidad Pontificia de Comillas (ICADE).  
Master's 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 Committee Nacional de Energía (CNE).  
Institutional Relations and Communications Manager for BP Oil España.  
Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).  
Representative on various international working groups on issues of energy regulation and security of supply (ARIAE and CEER). Professor at lectures and/or presentations on different Masters Courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club)

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

MS. MARÍA ANGELES AMADOR MILLÁN

##### **Profile:**

Born 10 October 1949.

Law Degree, Universidad Complutense de Madrid

##### **Currently:**

Practising lawyer.

##### **Formerly:**

Technical General Secretary, Ministry of Public Works and Urban Development.  
Deputy Secretary, Ministry of Health and Consumer Affairs.  
Minister for Health and Consumer Affairs.  
Member of Parliament for Segovia.  
Member of Parliament for Madrid.  
Deputy Chairwoman, Constitutional Committee, Lower House of Parliament.

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

MS. PALOMA SENDÍN DE CÁCERES

##### **Profile:**

Born 19 September 1951.

Graduate in Economics and Business Science, Universidad Autónoma de Madrid.  
Trade Expert and State Economist. State Diploma in Trade.

##### **Currently:**

Member of the Advisory Board of the Technical School of Mines and Energy of Madrid.  
Advisory Committee Member of the Fundación para Estudios sobre la Energía.

##### **Formerly:**

Chief Economic and Trade Advisor at the Economic and Trade Office of the Spanish Embassy in Dublin.  
Director General of Administration and International Relations for the Organisation of Ibero-American States for Education, Science and Culture (OEI).  
Member of the Nuclear Safety Board (CSN) and member of a number of national and international Committees, representing the CSN before the OECD and other bodies.  
Director General of Mines.  
President of the National Mining Safety Commission.  
Director General of the Institute for Restructuring of the Coal Mining Industry and Alternative Development, reporting to the Ministry of Industry and Energy.  
Managing Director of Promotion at ICEX.  
Member and representative of Spain on various EC committees and workgroups.  
Member of the Organising Committee of the European Union Conference on Stakeholders.  
Member of the Organising Committee of the 2nd Forum on the Implications of the New Recommendations of the International Commission on Radiological Protection.  
Director of Sociedad Estatal de Participaciones Industriales (SEPI) (1997-2000).  
Director, Hulleras del Norte (HUNOSA).  
Director, Banco Exterior de España.  
Director, Compañía Logística de Hidrocarburos (CLH).  
Director, FOCOEX.  
Director, Tabacos de Filipinas.  
Director, SIRECOX.  
Director, Centro para el Desarrollo Tecnológico Industrial (CDTI).  
Director, Fábrica Nacional de Moneda y Timbre (FNMT).  
Director, Tabatrade.  
Director, Banco Exterior de España, UK branch.  
Author of numerous articles and publications related to her professional activity.  
Speaker at conferences and events related to her professional activity in Spain, Europe, America and Asia.

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

MR. ANTONIO GÓMEZ CIRIA

##### **Profile:**

Born 25 March 1957.

Degree in Economics and Business Studies, Universidad Complutense de Madrid  
Degree in Mathematics, Universidad Complutense de Madrid.  
Master's in Business Administration & Management (Executive MBA), IESE.

##### **Currently:**

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





TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Formerly:

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

Other:

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

#### Name or corporate name of director:

MS. MARÍA JOSÉ GARCÍA BEATO

**Profile:**

Born 27 May 1965.  
Degree in law from the University of Cordoba. State lawyer.

Currently:

Deputy secretary non-director of the 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).  
Patrón of the Fundació Privada Banc Sabadell.  
Patrón of the Fundación Española de Banca para Estudios Financieros (FEBEF).  
Secretary of the Board of the Fundación de Estudios de Economía Aplicada (FEDEA).  
Member of the Advisory Board of the publisher Wolters Kluwer España, S.A.  
Patrón of the Fundación Wolters Kluwer.  
Member of the Advisory Board of Fundación Cajasur.

Formerly:

State lawyer at the Madrid High Court of Justice.  
Head of the legal department of the Data Protection Agency.  
Spanish representative of the Consulting Committee of the Council of Europa on matters of data protection.  
Advisor to the Board of Directors of the Fábrica Nacional de Moneda y Timbre for project CERES (Certificación Española de transacciones Electrónicas).

State lawyer at the Sub-directorate of the Consulting Services of the Directorate for State Legal Services.  
State lawyer at the General Secretariat for Communications of the Ministry of Development.  
General director of the Ministry of Justice cabinet.  
Director at Infoinvest, S.A.  
Director at Sociedad Estatal de Gestión Inmobiliaria de Patrimonio, S.A. (SEGIPSA).  
Director at Sociedad Estatal para Exposiciones Internacionales, S.A. (SEEI).  
Director at Sociedad Estatal Correos y Telégrafos, S.A.  
Director at Banco Guipuzcoano, S.A.  
Director at Banco CAM, S.A.  
Deputy secretary of Justice.  
State lawyer at the National Court legal services.  
Director of the legal advice service of Banco Sabadell.  
Secretary of the Board of Directors of Retevisión, S.A.  
Secretary of the Board of Directors of Banco Urquijo.

#### Name or corporate name of director:

MS. SOCORRO FERNÁNDEZ LARREA

**Profile:**

Born 7 April 1965.

Civil Engineer, Universidad Politécnica de Madrid.

Currently:

CEO of the consultancy firm JustNow, S.L., providing advice in the infrastructure construction sector, both in commercial and financial operations.  
Member of the Board of Directors of AMPER, S.A. (proprietary director), on behalf of Emilanteos, S.L.  
Member of the Board of Director of the Spanish engineering firm SEG, S.A.  
Member of the Board of Directors of the Spanish construction and property firm ACR  
Member of the advisory board of the Mexican engineering firm CAL Y MAYOR  
Member of the advisory board of the property firm ZELTEX, active in Senegal

Formerly:

General Manager, COPISA Constructora Pirenaica S.A.  
Vice President, ANCI, Asociación de Constructores Independientes  
Member of the Governing Council, Association of Civil Engineers  
Regional Manager, Seop, Obras y Proyectos, S.A.  
National Representative, Ferrovial Conservación, S.A.  
Representative in Castilla-La Mancha, Ferrovial-Agroman, S.A.  
Representative in Castilla-La Mancha, Agroman Empresa Constructora, S.A.  
General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works, Autonomous Community Board of Castilla-La Mancha  
Works manager, Ferrovial, S.A., in Castilla-La Mancha

Other:

Member of the advisory board of the newspaper EXPANSION  
Member of WCD, Women Corporate Directors and co-chair of the Spain chapter  
Member of AED, Asociación Española de Directivos, member of the Management Board  
Member of CEAL, the Business Council for Latin America, member of the Management Board (chapter on the Iberian Peninsula).  
Member of WPO-YPO, Young Presidents' Organization, member of the chapter executive committee Eurolatam  
Member of IWF, International Women Forum



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



**Name or corporate name of director:**

MR. JOSÉ LUIS FEITO HIGUERUELA

**Profile:**

Born 13 April 1952.

Degree in Business Studies and Economics from the Universidad Complutense de Madrid.  
Commercial Expert and State Economist.  
Spanish Ambassador.

**Currently:**

Chairman of IEE (Instituto de Estudios Económicos) since 2009.  
Chairman of the Economic and Financial Policy Commission of the CEOE, and Executive Committee and Management Board member since 2001.  
Member of the Board of Directors of Bankia, S.A. and member of its Auditing and Compliance Committee since 2012.  
Member of the Editorial Board of the newspaper Expansión since 2001.

**Formerly:**

Chairman of ASETA-Asociación de Sociedades Españolas Concesionarias de Autopistas, Túneles, Puentes y Vías de Peaje (2001-2014).  
Spanish Ambassador to the OECD in Paris (1996-2000).  
Partner and member of the Board of Directors of A.B. Asesores Bursátiles, S.A. in Madrid (Morgan Stanley), company where he was "Chief Economist" and responsible for the management of several Investment Banking areas (1986-1996).  
Head of International Financial Institutions at the Bank of Spain, member of the European Monetary Committee (Brussels) and of the Committee of Central Bank Governors of the European Union in Basle (1984-1986).  
Technical Advisors and Executive Director in Washington of the International Monetary Fund (1980-1984).  
Head of the Studies Service of the External and Data Processing Sector of the Ministry of Economy and Finance, in Madrid (1978-1980).  
Computer programmer, analyst and executive with the companies Seresco, S.A. and Entel-Ibermática, S.A., in Madrid (1967-1978).

Total number of Independent Directors	7
% of the board	58.33%

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

Yes  No

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

**OTHER EXTERNAL DIRECTORS**

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

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

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

	% of total directors of each type							
	2015	2014	2013	2012	2015	2014	2013	2012
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	5	5	4	4	41.67%	50.00%	36.36%	36.36%
<b>Other external</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	5	5	4	4	41.67%	50.00%	36.36%	36.36%

**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
In line with Recommendation 15 of the UCGB and the most recent international developments, Red Eléctrica has been appointing women directors with suitable profiles on its Board of Directors.  At the Annual General Meeting of Shareholders 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 of Directors in 2012. At the end of 2013, four (36.4%) of its members, representing 40% of the Company's external directors, were women. This placed the Company again in first place of the IBEX 35.  In 2014, the Board of Directors took one more step to fulfil the best recommendations in gender diversity matters. Thus, the Annual General Meeting of Shareholders held on 9 May 2014 approved the appointment of a woman as a new independent director to replace another independent director. As a result, at present, at the date of approval of this Report, 5 out of the 11 members of the Board of Directors were women, meaning that 45.45% of the entire Board of Directors are women (as opposed to 36.4% at the end of 2013). With respect to external directors, the percentage of women in 2014 came to 50%, as opposed to 40% at the end of 2013, once again being in



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



first position in the IBEX 35. As regards the financial year 2015, the number of women on the Board of Directors stayed at 5. However, after the increase by one the members of the Board of Directors as a result of the appointment of the managing director of the Company, which makes a total of 12 members, the percentage of women has fallen to 41.7% (compared to the 45.45% of 2014) but continues to be 50% of the external directors. Therefore, at present, Red Eléctrica continues to surpass the objective of 40% of the external directors established in the draft Directive approved by the European Commission, and the 30% established in the new Recommendation nº 14 of the Spanish Corporate Governance Code of Good Practices (CBGSC), both objectives being for the year 2020.

Moreover, as part of its ongoing commitment to adopt corporate governance best practices, the Board of Directors assumed the obligation of approving an annual report on gender diversity matters at the proposal of the Appointment and Remuneration 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 27 October 2015, 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 Appointments and Remuneration Committee. For the third consecutive year, a single report has been prepared grouping information on gender diversity on the Board of Directors with information on gender diversity in the Red Eléctrica Group, thereby producing a single report with all information on the matter. This Report has been published on the Company's website once again.

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

As regards the Board Committees, please note that in late 2015 the Company's Board of Directors, further to a proposal from the Chairman of the Board of Directors and a prior opinion from the Appointments and Remuneration Committee, has agreed to increase the number of members in each Board Committee: the Auditing Committee and Appointments and Remuneration Committee, from four (4) to five (5) members. Following this increase, on 31 December 2015, on the Appointments and Remuneration Committee, 100% of its 4 members were women (bearing in mind that on such date there was a vacancy and it consisted of 4 members) and is chaired by a

woman. On the Auditing Committee 1 out of its 5 members is a woman.

In 2013, the Board of Directors agreed to create the role of Lead Independent Director (LID). This was approved by the Annual General Meeting of Shareholders held on 18 April 2013. The aim of this measure is to reinforce the balance of powers within the Board of Directors, where the Chief Executive Officer and the Chairman of the Board are the same person. On 25 May 2013, Ms. Gómez de Barreda Tous de Mosalve 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 which, the appointment committee might have agreed so that selection procedures might be free from any implicit bias hindering the choice of female directors and the company deliberately seeking and including among the potential candidates women meeting the potential profile sought:**

<i>Explanation of measures</i>
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 14 of the former UCGG and in accordance with Article 16.1 of the Regulations of the Board of Directors. This is the responsibility of the Appointments and Remuneration Committee.
The Board of Directors has taken on board best practice recommendations on gender diversity. At the end of 2015, five (41.7%) of its members, representing 50% of the Company's external directors, were women. Red Eléctrica therefore continues to surpass the objective of 40% of external directors established in the draft Directive approved by the European Commission and the 30% established in Recommendation nº 14 of the new CBGSC, both objectives being for the year 2020.
On 25 May 2013 was appointed independent coordinating director by the Board of Directors, at the proposal of the Appointment and Remuneration Committee (formerly the Corporate Responsibility and Governance Committee).
As regards the Board Committees, pursuant to the foregoing, it is worth mentioning that during the entire financial year 2015, the Appointment and Remuneration Committee was chaired by a woman



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



and, after the increase in its members, as at 31 December 2015, 100% were women. The Auditing Committee was chaired by a woman until June 2015, and as at 31 December 2015 one of its 5 members was a woman.

To conclude, all proposed appointments of female directors and the incorporation of female directors as Board Committee members, either proposed or reported by the Appointment and Remuneration Committee, have been approved by the Board, entailing a greater presence of women on the Board of Directors and Committees, as well as in the management bodies of the Company.

When, despite the measures which were applicable have been adopted there are few or no female directors, explain the reasons justifying this:

Explanation of reasons
Not applicable

**C.1.6 bis Explain the conclusions of the appointments committee on the verification of the compliance with the director selection policy. In particular, explain how such policy is promoting the objective for the number of female directors in the year 2020 representing at least 30% of the total number of members of the board of directors.**

Explanation of conclusions
----------------------------

As regards the selection of directors, the Appointments and Remuneration Committee is based on a general matrix of competences containing the criteria defining the profile and requisites considered suitable for performing the position as director of the company and analyses the qualities, competences and experience the ideal director for holding the position should have, regardless of their category.

In each candidate selection process, the Appointments and Remuneration Committee analyses the profile of the candidates and assesses whether it is in line with the ideal profile for performing the position as director for the type of director of which is vacant at the time.

To do this, the Appointments and Remuneration Committee fulfils the basic responsibilities established under article 16.1, sections g), h) and i) of the Regulations of the Board of Directors, whereby the Committee should:

-Ensure the candidates for covering a director vacancy meet all the requisites required by legal provisions and the Regulations of the Board of Directors.

-Assess the competence, knowledge and experience needed for the Board and define, as a result, the functions and skills necessary for the candidates to cover such vacancy, within the policy approved to such end.

- Assess the time and devotion need for directors to be able to perform their duties with due clarity and efficiency, evaluating to such end their compatibility with belonging to other company administrative bodies.

Moreover, in the Corporate Governance Policy approved by the Board of Directors on 25 November 2014 and published on the webpage, it is established that "Red Eléctrica applies the principle of ensuring the existence of suitable procedures for the selection of directors, guaranteeing a reasonable balance and diversity on the Board of Directors for the suitable performance of their task. To do so, on evaluating the candidates participating in the selection process, the procedure takes into account the competences, experience, professionalism, suitability, independence of criteria, knowledge, qualities, capacities and availability of the members of the Board of Directors from time to time, with the Appointment and Remuneration Committee assuming a relevant role in this process".

To do all the foregoing, it has been taken into account by the Appointments and Remuneration Committee and the Board of Directors when analysing the reports and proposals for covering existing vacancies on the Board of Directors in 2015, as can be seen from the corporate webpage - www.ree.es - in the documentation Red Eléctrica made available to shareholders for the ratification and appointment of a proprietary director and an independent director at the Annual General Meeting of Shareholders held on 15 April 2015, and the appointment of a new executive director at the Extraordinary General Meeting held on 17 July 2015, which also included a report from a head hunter.

As regards the concern of the Board of Directors for promoting women on the Board of Directors, article 16.1 l) of the Regulations of the Board of Directors establishes as one of the basic responsibilities of the Appointments and Remuneration Committee ensuring that account is taken of gender diversity when covering new vacancies. Likewise, the Corporate Governance Policy approved by the Company on 25 November 2014 establishes that "the Company applies the principle of promoting diversity of knowledge, experience and gender in the composition of the Board of Directors and its Committees as an essential factor enabling it to reach its objectives from a plural and balanced perspective".



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



As has already been explained in sections C.1.5 and C.1.6 above, since 2014 the Company has had 5 female directors and surpasses the objective of 40% of external directors established in the draft Directive approved by the European Commission and the 30% established in Recommendation nº 14 of the new CBGSC, both objectives being for the year 2020.

For several years, the Company has held first place among companies of the IBEX 35 as for the largest percentage of women on the Board of Directors.

For further information, we refer to the Diversity Report on Gender and Equality Policy approved by the Board of Directors on 27 October 2015 published on the corporate webpage – [www.ree.es](http://www.ree.es) -.

#### C.1.7 Explain how shareholders with significant stakes are represented on the board.

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

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

Pursuant to the role set out in Article 24.2 of the Corporate By-laws, the competences of the Appointments and Remuneration 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 Meeting.

Proprietary directors must disclose to the Board of Directors 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 of Directors 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 of Directors disposes of its stake 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 one time.

At 31 December 2015, 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: Fernando Fernández Méndez de Andés, Santiago Lanzuela Marina and José Ángel Partearroyo Martín, representing 25% of the total number of directors, without including the independent director vacancy.

Aside from SEPI, there are no individuals or legal entities that exercise or may exercise control over the Company, pursuant to Article 5 of Royal Legislative Decree 4/2015, of 23 October, approving the consolidated text of the Securities Market Act.

#### C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital:



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



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

Yes  No

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

**Director's name**

MR FRANCISCO RUIZ JIMÉNEZ

**Reasons for removal:**

Ceasing to form part of SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI), which he represented as proprietary director of the company.

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

**Name or corporate name of director**

MR JOSÉ FOLGADO BLANCO

**Brief description**

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

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

**Name or corporate name of director**

JUAN FRANCISCO LASALA BERNAD

**Brief description**

25

At its meeting on 28 July 2015, the Company's Board of Directors unanimously agreed:

*"To delegate, jointly, severally and equally, to the managing director of Red Eléctrica Corporación, S.A., Juan Francisco Lasala Bernad, pursuant to the provisions of Article 249 of the current Capital Companies Act, Article 149 of the Mercantile Registry Regulations, Article 22 of the Corporate By-laws and Article 5 of the Regulations of the Board of Directors, all powers of the Board of Directors that may be delegated by law and pursuant to the By-laws."*

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

Name or corporate name of director	Corporate name of the group entity	Position	Executive duties?
Mr José Folgado Blanco	Red Eléctrica Internacional, S.A.U.	Joint Director	YES
Mr José Folgado Blanco	Red Eléctrica del Sur, S.A.	Chairman of the Board of Directors	NO
Mr José Folgado Blanco	Red Eléctrica España S.A.U.	Individual representative of the Sole Director, Red Eléctrica Corporación S.A	YES
Mr Juan Francisco Lasala Bernad	Red Eléctrica Internacional, S.A.U.	Joint Director	YES

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

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

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

Yes  No

26



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Explanation of rules
<p>As part of the basic duties of the Appointments and Remuneration 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.</p> <p>In this regard, the Appointments and Remuneration Committee has the power to analyse and propose to the Board authorisation, as the case may be, for members of the Board of Directors of Red Eléctrica to join the boards of directors of other companies.</p> <p>Article 7.3 of the Regulations of the Board of Directors limits the maximum number of boards of other listed companies on which an Independent Director may sit to two (2), except when otherwise expressly approved by the Board at the proposal of the Appointments and Remuneration Committee.</p> <p>In turn, according to said article of the Regulations:</p> <ul style="list-style-type: none"> <li>- Proprietary directors may not hold positions in more than five (5) listed companies at any one time.</li> <li>- 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.</li> </ul>

C.1.14 Section revoked.

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

Board remuneration (thousands of euros)	2,653
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	0
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	0

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)
MR ANDRÉS SECO GARCÍA	GENERAL MANAGER OF OPERATION
MR CARLOS COLLANTES PÉREZ-ARDÁ	GENERAL MANAGER OF TRANSMISSION
MS EVA PAGÁN DIAZ	GENERAL MANAGER OF TRANSMISSION
MR MIGUEL RAFAEL DUVISION GARCÍA	GENERAL MANAGER OF OPERATION
<b>Total remuneration received by senior management (thousands of euros)</b>	740

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	Corporate name of company owning significant holding	Position
MR JOSÉ ÁNGEL PARTEARROYO MARTÍN	SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)	DIRECTOR

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 related director**

MR JOSÉ ÁNGEL PARTEARROYO MARTÍN

**Name or corporate name of company owning significant holding**

SOCIEDAD ESTATAL DE PARTICIPACIONES INDUSTRIALES (SEPI)

**General Description**

GENERAL MANAGER

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

Yes  No

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



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



## 1. Appointment and reappointment

Article 19 of the Regulations of the Board of Directors provides that Directors will be appointed by the General Meeting or by the Board of Directors by way of co-optation. The Appointments and Remuneration 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 of Directors, and using external advisors as deemed appropriate, and as provided for in Article 20 of the Regulations.

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

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

In 2011, the Board of Directors approved a Company Chairman Succession Plan.

Bearing in mind that the Board Regulations were amended in 2013 and are currently under review, in 2016 a review will take place of the Succession Plan to keep it fully up to date, in accordance with the Corporate Governance Policy of the Company and the reforms of the LSC and to incorporate into the Succession Plan the functions and responsibilities of the position of independent co-ordinating director and contemplate the succession of the Chairman of the Board of Directors and that of the CEO after the split of the two positions approved at the Extraordinary General Meeting of Shareholders held in July 2015,

## 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 Officer of the Company will be assessed at least every two years by an independent external expert.

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

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

- i) The quality and efficiency of the Board's functioning and the discharge by the Chairman of the Board of Directors and by the Company's Chief Executive Officer of their functions, based on a report submitted by the Appointments and Remuneration Committee in coordination, where applicable, with the lead independent director.
- ii) The functioning of its Committees, based on the report submitted by the Appointment and Remuneration Committee in coordination, where applicable, with the lead independent director.

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

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

In 2014, and for 2015, which is currently underway, a self-evaluation process is being carried out with the assistance of the independent firm PricewaterhouseCoopers (PwC).

## 3. Removal.

Article 22.1 of the Regulations of the Board of Directors provides that Directors will cease to hold office at the end of the term for which they were appointed or when so decided by the General Meeting in exercise of the authority conferred upon it by law or the By-laws. The Board of Directors must not propose the removal of an Independent Director prior to the completion of the term of office specified in the By-laws for which the Director was appointed, unless there is just cause and subject to a report from the Corporate Responsibility and Governance Committee (now known as the Appointments and Remuneration 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.





OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



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

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

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

**C.1.20 Explain to what extent the annual board evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:**

Description of amendments
<p>The annual evaluation of the Board of Directors corresponding to 2014 has given rise, <i>inter alia</i>, to the following changed in internal organization:</p> <ul style="list-style-type: none"> <li>-The separation of the positions of Chairman of the Board of Directors and Chief Executive (managing director) of the Company.</li> <li>-The maintaining of the position of Independent Co-ordinating Director (CIC) after the aforementioned separation.</li> <li>-The reorganization of Management and approval of the Strategic Plan.</li> <li>-The strengthening of the model of relations between the Board of Directors and investors and proxy advisors.</li> </ul> <p>For further information, see the Annual Corporate Governance Report the company prepares voluntarily, available on the corporate webpage - <a href="http://www.ree.es">www.ree.es</a> -.</p>

**C.1.20.bis Describe the evaluation process and areas evaluated carried out by the board of directors assisted, if applicable, by an external consultant, as regards diversity in its composition and competences, operations and composition of its committees, performance of the chairman of the board of directors and the chief executive of the company and performance and contribution of each director.**

The self-evaluation process corresponding to 2014, which focused on the Board of Directors and its Committees, the performance of the duties of the Governing Bodies, including the chairman, the director independent co-ordinator and secretary of the Board, and other areas such as the role of the shareholders and investors or Remuneration Policy of the company included the participation for the second consecutive year of

PricewaterhouseCoopers (PwC), after having been conducted for several years by KPMG, current external auditor of the Red Eléctrica Group.

In relation to the self-evaluation process, this was carried out in the months of January and February based on interviews with the directors of the Company by those responsible at PwC, under the supervision and co-ordination of the Corporate Responsibility and Governance Committee (known now as the Appointment and Remuneration Committee) and the independent co-ordinating director.

During the interviews, the directors gave their opinion in relation to a series of questions related to the quality and efficacy of the operations and performance of the Board and other Administrative Bodies.

Moreover, those directors who in turn formed part of the Auditing Committee or the Appointments and Remuneration Committee answered a set of specific questions on such Bodies in order to analyse their operations in greater depth.

The final conclusions Report of the self-evaluation procedure for 2014 was approved by the Board of Directors at the meeting held on 26 May 2015.

As in the previous year, the result of the self-evaluation procedure carried out by PwC through the interviews with the directors shows that the Administrative Bodies of RED ELÉCTRICA enjoy a high degree of efficiency and smooth operations, obtaining a highly positive evaluation as to the structure and internal functioning of the various Administrative Bodies, and in respect of the fulfilment of the responsibilities entrusted to each of these Bodies.

Due to the renewal process of certain positions of the Board of Directors which took place in 2014, of note is the positive opinion of most directors in relation to the formal aspects of the Administrative Bodies, in particular regarding availability, rigor and preparation of the meetings and quality of the discussions.

Also valued very positively was the performance of the functions attributed to the various Administrative Bodies, with the directors emphasising positively the level of interaction between the Board of Directors and senior management, and the efficacy and level of discussions in relation to the decision-making process, especially when there was any difference of opinion among the members.

Furthermore, the self-evaluation in 2014 made it clear that the company is highly advanced as regards corporate governance, on having implemented various practices which go beyond the legal requisites existing at the time of the self-evaluation. In addition, pursuant to the provisions of the LSC, the Board of Directors, apart from making an



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



annual evaluation of its operations and those of its Committees, proposed on the basis of the outcome of the procedures an action plan with areas of improvement to be considered. For further information, see the Annual Corporate Governance Report the company prepares voluntarily, available on the corporate webpage -www.ree.es-.

**C.1.20.ter Describe in detail, if applicable, the business relations which the consultant or any company of its group might have with the company or any company of its group.**

The consultant evaluating the Board of Directors of the Company has other business relations with the Company and the companies of its group. The fees accrued by the consultant for the services provided for the evaluation of the Board of Directors of the Company comprise 7.93% of the total of the services provided to the Company and the companies of its group.

**C.1.21 State those 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 positions with which their appointment as Director was associated.
- f) When their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Section 38.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members.

If a Director is prosecuted or is brought to trial for any of the crimes mentioned in Article 213 of the Spanish 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."

**C.1.22 Section revoked**

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

Yes  No

If applicable, describe the differences.

Description of differences
----------------------------

Any resolution – Quorum - Half plus one of the Directors present in person or by proxy (Art. 18 of the Regulations)- Type of majority: Absolute  
 Modification of the Regulations of the Board of Directors, pursuant to Article 3.4 of the Regulations-Quorum: As for any resolution- Type of Majority: Two thirds  
 Removal or retirement of a Director when their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Article 38.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members, in accordance with Article 22.2.f) of the Regulations. Quorum: As for any resolution. Type of majority: Two thirds  
 Cessation of the director at the request of the Board of Directors, in the event of repeated non-attendance at Board meetings. Request by two-thirds majority  
 No provision is made for resolutions that require a qualified majority for their adoption, apart from those specifically contemplated in the applicable legislation and those relating to amendments to the Regulations of the Board of Directors and removal or retirement referred to above.



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



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

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

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

Article 21 of the By-laws and Article 18 of the Regulations of the Board of Directors establish that resolutions will be adopted by absolute majority of the votes of the directors present at the meeting, in person or by proxy, unless the law requires that resolutions be adopted by a higher majority, with the exceptions already mentioned as established in the Regulations of the Board of Directors.

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

Yes  No

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

Yes  No

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

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

Yes  No

Age limit for Chairman:

Age limit for chief executive

Age limit for director 70

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

Yes  No

**C.1.28 Indicate whether the By-laws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold, and if any limitation has been established as to the categories which may be appointed as proxy, beyond those limitations imposed by law. If so, give brief details.**

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

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

Furthermore, the provisions established in new Art. 529 quarter LSC should apply for non-executive directors, which has already been set forth in the By-laws.

**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	14
Number of Board meetings held without the Chairman's attendance	1

If the chairman is an executive director, indicate the number of meetings without the attendance or proxy of any executive director, under the chair of the co-ordinating director:



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Number of meetings	1
--------------------	---

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

Committee	No. of Meetings
Appointment and Remuneration Committee	14
Auditing Committee	11

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

Number of meetings with the attendance of all directors	11
% of attendances of the total votes cast during the year	98.08%

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

Yes  No

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

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

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

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

Since the formation of the Company in 1985, it has not been subject to any qualifications in the audits of its financial statements. This

demonstrates the utmost accuracy, reliability and sufficiency of the financial statements of the Company and its consolidated Group since its formation, guaranteeing at all times the maximum transparency in its reporting.

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

Yes  No

If the Secretary is not a director, complete the following table:

Name or corporate name of the secretary	Representative
RAFAEL GARCIA DE DIEGO BARBER	

**C.1.34 Section revoked**

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

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

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

The Ordinary General Shareholders' Meeting held on 15 April 2015 approved an amendment of the Corporate By-laws, to adapt them to the latest legislative reforms introduced by Act 31/2014, of December 3, amending the LSC for improving corporate governance and, among other articles, article 23.2 of the By-laws was amended, relating to the competences of the Auditing Committee, incorporating minimum adjustments in relation to the External Auditors.

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



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Article 14.3 b) of the Regulations of the Board of Directors (subject to review for its total adaptation to Act 31/2014, of 3 December), in relation to the independence of external auditors, provides that suitable relations may be established with the external auditors so as to obtain for examination information regarding matters that might jeopardize their independence or any other issue related to performance of the auditing process, and any other notifications as required under audit legislation and regulations. In any case, the Committee must receive each year from the auditors written confirmation of their independence from the Company or from entities related to the Company directly or indirectly, as well as information on additional services of any kind provided to such entities by those auditors or by persons or entities related to those auditors in accordance with the provisions of legislation in force.

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

The Regulations of the Board of Directors in force establish the Auditing Committee issuing annually, prior to the issuance of the auditors' report, a report containing its opinion on the independence of the external auditors.

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

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

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

case, the contracting of such services must be authorised by the Auditing Committee.

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 corporate 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 X

Explain any disagreements with the outgoing auditor and the reasons for the same:

**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 X No

	Company	Group	Total
Amount of non-auditing work (in thousands euros)	0	66	66
Amount of non-auditing work as a % of the total amount billed by the auditing firm	0.00%	18.30%	18.30%

**C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons**



given by the Chairman of the Auditing Committee to explain the content and scope of those reservations or qualifications.

Yes  No

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

	Company	Group
Number of consecutive years	3	3
Number of years audited by current auditing firm/Number of years the company's financial statements have been audited (%)	10.00%	20.00%

**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 Auditing Committee and the Corporate</p>

Responsibility and Governance Committee may propose that the Board of Directors seek independent professional advice.

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

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

Yes  No

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>



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Both the Auditing Committee and the Corporate Responsibility and Governance Committee may access any kind of Company information or documentation that they may need for the better performance of their duties, as indicated in section C.1.40 above.

**C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:**

Yes  No

Details of rules
Article 38 of the Regulations of the Board of Directors provides, among the disclosure obligations of Directors, that Directors must inform the Company of all judicial, administrative and other claims that by reason of their significance could harm the credit and reputation of the Company and, in particular, of any criminal proceedings in which they appear as an accused party, and of subsequent progress in the case.
Furthermore, pursuant to Article 22.2 f) of the Regulations of the Board of Directors, Directors must tender their resignation to the Board of Directors and, where the Board deems it appropriate, formally resign where their continued presence on the Board may jeopardize the interests of the Company, as envisaged above, and where the Board deems this to be the case with the affirmative vote of two-thirds of its members.
If a Director is prosecuted or a decision is rendered to bring him to trial for any of the crimes referred to in Article 213 of the Spanish Corporate Enterprises Act, the Board of Directors shall review the matter as soon as possible and, in light of the specific circumstances, shall decide, as provided for in the preceding paragraph, whether or not it is appropriate for the director to remain in office.

**C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in Article 213 of the LSC:**

Yes  No

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

**C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.**

The Company has not entered into any agreements that come into force, are changed or terminate in the event of a change in control of the Company as a result of a takeover bid for the shares.

**C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.**

Number of beneficiaries	4
Type of beneficiary	Description of the resolution
Executive Directors	The contract of the Chairman was proposed by the Appointment and Remuneration Committee (formerly the Corporate Responsibility and Governance Committee) and approved by the Board of Directors of the Company in March 2012. The contract of the Managing Director was proposed by the Appointment and Remuneration Committee and approved by the Board of Directors of the Company on 28 July 2015. Both contracts, following common market practice, include compensation equivalent to one year's remuneration in the event of the termination of the commercial relationship due to dismissal or a change of control. In addition, as is normal in these cases, as a result of his appointment as Managing Director, the current employment contract of Juan Lasala Bernad is suspended. In the event this should be terminated, it would accrue in terms of compensation the remuneration existing as at the date of its suspension, taking into account, for the appropriate



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



	effects, his seniority in the Company as on the date of his appointment as Managing Director (14 years), in accordance with prevailing employment legislation.
Top executives	There are no safeguard or golden parachute clauses for members of the Group's current senior management. In the event of the termination of the employment relationship, the compensation which would correspond to such executives would be calculated in accordance with applicable employment regulations. The contracts of these executives have been approved by the Appointment and Remuneration Committee, and have been reported to the Board of Directors. Those top executives who have not yet turned 60 are included in the Structural Management Plan put into practice by the Company in 2015. During 2015, accrued expenses were recognised associated with the departure, during the financial year, of a top executive, for the amount of 914 thousand euros, which included fixed remuneration, annual variable remuneration, the part accrued of the long-term remuneration 2014-2019 and, in addition, the compensation applicable in accordance with his contractual conditions.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

	Board of Directors	General Shareholders' Meeting
Body authorizing clauses	Yes	No
	YES	NO

Is the General Shareholders' Meeting informed of such clauses?	X	
--	---	--

**C.2 Board committees**

**C.2.1 Give details of all the board committees, their members and the proportion of proprietary and independent directors:**

**AUDITING COMMITTEE**

Name	Position	Type
MR JOSE LUIS FEITO HIGUERUELA	Chairman	Independent
MS PALOMA SENDÍN DE CÁCERES	Member	Independent
MR FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	Member	Proprietary
MR ANTONIO GÓMEZ CIRIA	Member	Independent
MR SANTIAGO LANZUELA MARINA	Member	Proprietary

% of proprietary directors	40.00%
% of independent directors	60.00%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the organizational and operational procedures and rules of the same and summarise its most important actions during the year.

The functions, organizational and operational procedures and rules of the Auditing Committee are set forth in the articles 23 of the Corporate By-laws and 13 and 14 of the Regulations of the Board of Directors.

The most important actions of the Auditing Committee are included in the Annual Activities Report of the said Committee corresponding to 2015, contained in the Annual Corporate Governance Report voluntarily prepared by the company, available on the corporate webpage -www.ree.es. Moreover, such Report is to be published separately on the said corporate webpage.

Identify the director member of the Auditing Committee designated bearing in mind their knowledge and experience in matters of accounting, auditing or both, and report on the number of years the Chairman of this committee has held the position.

Name of director with experience	MR JOSE LUIS FEITO HIGUERUELA
Nº of years of the chairman in the position	0

**APPOINTMENT AND REMUNERATION COMMITTEE**

Name	Position	Type
------	----------	------





**OFFICIAL ANNEX**  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE	Chairwoman	Independent
MARIA JOSÉ GARCÍA BEATO	Member	Independent
SOCORRO FERNÁNDEZ LARREA	Member	Independent
MARIA DE LOS ANGELES AMADOR MILLÁN	Member	Independent

% of proprietary directors	0.00%
% of independent directors	100.00%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the organizational and operational procedures and rules of the same and summarise its most important actions during the year.

The functions, organizational and operational procedures and rules of the Auditing Committee are set forth in articles 24 of the Corporate By-laws and 15 and 16 of the Regulations of the Board of Directors.

The most important actions of the Appointments and Remuneration Committee are included in the Annual Activities Report of the said Committee corresponding to 2015, contained in the Annual Corporate Governance Report voluntarily prepared by the company, available on the corporate webpage – www.ree.es. Moreover, such Report is to be published separately on the said corporate webpage.

**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				
	2015	2014	2013	2012	2011
	Number %	Number %	Number %	Number %	Number %
<b>APPOINTMENT AND REMUNERATION COMMITTEE</b>	4 100.00%	3 75.00%	1 33.33%	1 33.33%	1 25.00%
<b>AUDITING COMMITTEE</b>	1 20.00%	2 50.00%	2 66.66%	2 66.66%	2 66.66%

**C.2.3 Section revoked**

**C.2.4 Section revoked**

**C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.**

In 2013, the Regulations of the Board of Directors of the company implemented the regulating of the structure, composition and operations of the Auditing Committee and the Appointments and Remuneration Committee in accordance with main practices and international recommendations on matters of corporate governance, introducing improvements into the organization and operations.

A complete regulation integrated into the Regulations of the Board of Directors was chosen, without any specific internal rules and regulations for the Committees having been established.

The functions and responsibilities of the Committees are based on the Corporate By-laws which have been adapted in this area to the new aspects introduced by Act 31/2014, of 3 December, amending the LSC for improving corporate governance, at the Annual General Meeting of Shareholders held on 15 April 2015. In this same sense, the Regulations of the Board of Directors is being reviewed, to be fully adapted to the said reform of the LSC and, to the extent possible, to the recommendations of the new CBGSC, among other aspects.

The current Regulations of the Board of Directors can be seen on the company webpage www.ree.es, in the section on Corporate Governance, notwithstanding the fact that it is registered and, therefore, available to any shareholders or interested party at the CNMV and the Madrid Commercial Registry.

Each year, the Board Committees prepares the corresponding reports on its activities, which are contained in full in the Annual Corporate Governance Report, prepared in their own format at the discretion of the company, and which can be seen on the webpage of the company. Moreover, both reports are to be published separately on the corporate webpage, once they have been approved by the Committees, in 2016.

**C.2.6 Section revoked**

**D RELATED-PARTY AND INTRAGROUP TRANSACTIONS**

**D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.**



#### Procedure for approval of related-party transactions

Pursuant to Articles 5.5 and 14.6 of the Regulations of the Board of Directors, in May 2010 the Board of Directors, at the proposal of the Auditing Committee, approved a policy on controlling related-party transactions and defined objective parameters for controlling related-party transactions, material or otherwise, recurring annual related-party transactions, and related-party transactions requiring mandatory notification to the markets. The Auditing Committee monitors this policy annually and reports to the Board of Directors. In 2016 the public is envisaged on the corporate webpage of the Annual Auditing Committee Report on related transactions, corresponding to 2015, in accordance with recommendation 6 of the CBGSC.

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 Meeting.

- D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:**
- D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:**
- D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities:**
- In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:**
- D.5 Indicate the amount from related-party transactions.**
- D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.**

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

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

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

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

The conflicts of interest described in this section are reported in the Annual Report.

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

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

Obligated parties and temporarily obligated parties must keep up to date the information on notified Conflicts of Interest reporting all changes as and when they occur. Without prejudice to the obligations established in the preceding paragraph, as regards Conflicts of Interest, Board Members must comply with the conditions and requirements contained in the Corporate By-laws and in the Board Regulations, and, in general, with all such conditions and requirements as may derive from the corporate/commercial legislation applicable to public limited companies.

The Oversight Body shall keep up-to-date an itemized Register of the conflicts of interest notified by the various obligated parties and temporarily obligated parties, and shall adopt adequate security measures for its safekeeping and storage, and, in any event, access to the register shall be restricted.

It should be noted that for the above purposes, in accordance with Article 11 of the Internal Code of Conduct on the Securities Market, the Oversight Body is the Corporate Economic and Financial Department, which will act in collaboration with the Secretary of the Board of Directors as regards any legal



**OFFICIAL ANNEX**  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



issues resulting from the application or interpretation of the Code. The Oversight Body must periodically report to the Auditing Committee on the degree of compliance with the Code and on any incidents that may occur.

Pursuant to Article 13 of the Internal Code of Conduct on the Securities Market, the Auditing Committee is responsible for supervising compliance with the Internal Code of Conduct and the performance of the functions of the Oversight Body, the person responsible for the material transaction and the Office of the Secretary of the Board of Directors contemplated therein, and for the internal resolution of any such questions and conflicts raised by parties subject or temporarily subject to the Code as may be submitted to the Committee by the Oversight Body.

In relation to company executives, Article 2.1.3 of the Internal Code of Conduct on the Securities Market establishes that Company executives, as defined in Chapter I, are deemed to be subject to the Code and, accordingly, will be subject to that Code. Article 5.2. of the Internal Code provides that, when circumstances so require, the Oversight Body may decide to include as persons subject to the Code, on a temporary basis, any persons participating in a material transaction that have access to inside information. The parties affected will be given individual written notice of their inclusion on or exclusion from those lists.

The Board of Directors has formally reserved the examination of any material transaction carried out by the Company with a relevant shareholder, unless the matter is entrusted to the General Meeting due to its nature and conditions (Art. 39 of the Board Regulations).

**D.7 Is more than one Group company listed in Spain?**

Yes  No

Identify the listed subsidiaries in Spain:

**Listed subsidiaries**

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Define any business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

Mechanisms to resolve any potential conflicts of interest

**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 Integrated Risk Management System is to ensure that the risks that may affect the strategies and objectives of Red Eléctrica Group, including those which are tax-related, 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 Regulations of the Board of Directors of Red Eléctrica, it is the Board of Directors itself that approves 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 action guidelines 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. This Policy (4<sup>th</sup> edition) was approved by the Board of Directors in November 2014, and identified the various types of risks, established the risk level which the Company considers acceptable and provided action guidelines for managing and mitigating such risks.

In September 2015 the tax risk management and control Policy was integrated into this policy, including action guidelines for the management and mitigation of these types of risks. This policy is fully in line with the Strategic Plan of the Group in force and is available on the corporate webpage in the section on Corporate Governance, although the said integration is pending incorporation.

- General Procedure of Integrated Risk Control and Management. This procedure (4<sup>th</sup> edition) was approved by the Management Committee in January 2013, and establishes the object, responsibilities, activities and tasks of the system.

This procedure regulates the identification, evaluation and management of the relevant risks faced by the Group. This process is carried out in order to ensure that the various levels of responsibility of the Group are aware of and evaluate the risks threatening the activities, processes and projects, and that the management carried out takes them into account and is performed within the limits of the tolerable risk established.

As part of the internal policy of continuous improvement of processes, in 2012, the audit firm *Ernst & Young* carried out a review contrasting the



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



system of Risk Management at Red Eléctrica Group with the international standard ISO 31000, concluding that:

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

The Integrated Risk Management System includes any relevant task risks for the Red Eléctrica Group. On 29 September 2015, the Board of Directors approved the aspects of the Tax Risk Management and Control Policy of the Red Eléctrica Group and their integration into the Integrated Risk Management Policy.

The aspects of the Tax Risk Management and Control Policy implement the Tax Strategy of the Group approved by the Board of Directors on 30 June 2015. Furthermore, on 29 September 2015, the Board of Directors approved the adherence to the Code of Good Tax Practices which, *inter alia*, establishes all those leading to the reduction of significant tax risks and the prevention of those actions subject to causing them.

**E.2 Identify the bodies responsible for preparing and implementing the risk management system, including tax-related.**

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.

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

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

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

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

The Risk Control and Internal Auditing Management, which reports to the Office of the Chairman, is, through the Internal Auditing and Risk Control Department, responsible for managing the process of identification, analysis, evaluation and periodic control of risks. This department provides reports for the Management Committee, Auditing Committee and the Board of Directors. Amongst the information provided, the following is of particular note:

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

The organisational units are involved in the Risk Management System within the process of identification, analysis and evaluation, together with the Risk Control and Internal Management 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, including tax-related, which may prevent the company from achieving its targets.**

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

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

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

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

- Operational risks: Risks deriving from the inadequacy or failure of processes, personnel, internal equipment or systems or due to



OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



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 mentioned previously, in September 2015, the aspects of the Tax Risk Management and Control Policy of Red Eléctrica Group were integrated into the Integrated Risk Management Policy, establishing specific action guidelines for the management of such risks.

As a consequence of risk analysis undertaken by Red Eléctrica Group in the latest Risks Map produced, 141 risks have been identified, the distribution of which by types is:

- Regulatory risks, such as Spanish TSO
- Other regulatory risks, including tax risks
- Operational risks which might affect the Spanish electricity system
- Integrated security risks
- Risks to the environment and to the safety of persons
- Other operational risks, including criminal risks
- Financial and counterparty risks
- Risks associated with the telecommunications business
- Foreign trade risks

Equally, as set out 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 levels established (high, medium and low) can be appreciated.

In order to monitor the risks, the current Risk Management System includes follow-up on 561 action plans, aimed at reducing the risk level, and 317 indicators for controlling the progress thereof.

**E.4 Identify if the company has a risk tolerance level.**

The level of risk which the Red Eléctrica Group is prepared to accept is established both for individual and aggregate risks (Global Acceptable Risk Level)

Acceptable risk level for an individual risk:

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.

The level of tolerance for those risks defined by the Red Eléctrica Group only considers admissible those risks the evaluation of which in accordance with the foregoing matrix is considered to be low. According to the risk policy, any risk exceeding this admissible level must be subject to actions, in order to reach such level, insofar as the risk is manageable and the costs of its management are in proportion to the effect of the risk avoided. Every risk of acceptable level is subject to actions to maintain it at this level.

Global Acceptable Risk Level:

During 2015 and up to the present, work has been carried out on determining the global acceptable risk level which the Group is prepared to accept, for each of the four types of impacts already mentioned:

- Impact on the electricity supply.
- Impact on the strategies of the Group.
- Impact on reputation.
- Impact on results.

An aggregation method enabling the aggregate risk level to be determined is being developed, based on the evaluation of the individual risks.

Shortly, this global acceptable risk level will be subject to different contrasting tests before being submitted to the Board of Directors for its approval.



**OFFICIAL ANNEX**  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



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, automatically determining the level of risk (red boxes = high risk level, orange boxes = average risk level and green boxes = low risk level).

**E.5 Identify any risks, including tax-related, which have occurred during the year.**

First risk arising in the year and impact:

The transmission network facilities are constantly exposed to operating events that may affect the continuity and security of electricity supply.

During 2015 certain events have occurred, entailing minor cuts in power supply.

- Underlying circumstances:

In general, these events were caused by third parties and weather conditions.

- Operation of control systems:

All control systems have worked adequately, as evidenced by the level of availability in the transmission network, registering 97.93% in 2015 (provisional figure) and 98.20% in 2014 (final figure).

The Company has insurance policies to mitigate the potential event of these events on the P&L account.

**E.6 Explain the response and monitoring plans for the main risks the company is exposed to, including tax-related risks.**

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

Red Eléctrica Group's processes have been designed to incorporate elements to mitigate or reduce related risks, including tax-related. 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, including risk-related.

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, as well as to maintain it at the said level.

Each semester for high-level risks and annually for the other levels of risk, and when the circumstances of specific risks thus recommend, the Internal Auditing and Risk Management Department, which is integrated into the Global Risk Regulation and Control Department, along with the management units, reviews the performance and impact of the action plans established to reduce risk.

- Contingency Plans

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

- Electrical incidents that could affect security of supply (peninsular, insular and/or Ceuta and Melilla).
- Non-electrical incidents that could affect the environment, people, the efficiency of the Company, business results or any other event that could affect 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

Red Eléctrica also has an Action Guideline: Handling of Cyber Incidents, which establishes the criteria and guidelines for managing any cyber incidents regardless of the sphere within which it occurs.



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Complementarily to the foregoing, it should be stated that in 2007, Red Eléctrica commenced a project for aligning, reviewing and improving its Internal Control Over Financial Reporting (ICFR), with the basic objective of obtaining improvements in the efficiency and safety of procedures for preparing the economic-financial information of the company, adopting, in advance and voluntarily, best international practices. The ICFR includes the tax procedures and information of Red Eléctrica as well as the controls associated with them.

Such ICFR is described in detail in "SECTION F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" of this Report.

## F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

### F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

#### F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The responsibility model for the Company's Internal Control over Financial Reporting (hereinafter, ICFR) is articulated through the following special bodies, managements and organizational units, which implement, maintain and supervise the financial reporting process;

- The Board of Directors is ultimately responsible for the existence and maintenance of an adequate and effective ICFR. Specifically, pursuant to Article 5.6.vii) of the Regulations of the Board of Directors, the non-delegable functions of the Board of Directors include "approval of the policy for controlling and managing the main risks of the Company and of the Group, and for knowing and monitoring from time to time the internal control, prevention and reporting systems".

- The Corporate Economic-Financial Management, as the executor of the guidelines issued by the Board of Directors, has entrusted the Economic Management with responsibility for designing, implementing, operating and maintaining the consistency of the ICFR. As indicated in the Internal Control Manual, its responsibilities

include "establishing an adequate control structure to ensure an effective Internal Control System".

- The Auditing Committee is in charge of supervising ICFR. According to Article 14 of the Regulations of the Board of Directors, the Auditing Committee will "supervise the reporting process and integrity of the Company's financial information, and of the Group, ensuring that all regulatory requirements are met, an adequate delimitation of the consolidation perimeter and an adequate application of any relevant accounting standards and criteria", and "will supervise internal auditing services, to ensure that all reporting and internal control systems adequately operate". To carry out these tasks, the Auditing Committee is supported by the Internal Auditing and Risk Control Department, as well as external Auditors.

The Group's organizational units are jointly responsible for the controls defined for their areas of responsibility, ensuring they are designed and operated effectively.

In addition to the above, in December 2015, Ernst and Young performed an evaluation of the Monitoring Area of the Red Eléctrica Group, concluding that the elements and activities related to the monitoring area are formalised and present in all divisions/operations of the Organisation and that, moreover, the best practices of reference in this field have been implemented.

#### 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.**

Corporate Resource Management, as the executor of the guidelines issued by the Board of Directors, through the Group Human Resource 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.

The internal measures used by the Division to clearly define the lines of responsibility, and to determine the general framework of the organizational structure, are instrumented through the following documents:

- Consolidated Version of the Corporate By-laws.



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



- Internal Code of Conduct on the Stock Exchange.
- Corporate Responsibility Manual.
- Code of Ethics and corporate values.

Any particularities linked to the lines of responsibility and authority of the ICFR, are regulated through the ICFR Action Guide, describing maintenance tasks, update and supervision of ICFR at each level of responsibility described, pointing out that the Corporate Economic-Financial Management has delegated part of its tasks to the Economic Management, and the latter to the Department of Accounting Information and administration. The ICFR Action Guide is part of the Group's regulations and is available on the Intranet to all employees.

Dissemination of the organizational structure is achieved through the Intranet. All employees are provided with an updated flowchart.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The Group has implemented an appropriate framework of conduct, with specific values and guidelines for action, reinforcing the basis for achieving the objective of reliable and transparent financial information.

At this level, the following documents are aligned with the Group's corporate policies:

- Code of Ethics

The current "Code of Ethics: values and commitments" is approved by the Company's Board of Directors and effective as of 28 May 2013, until a new update is approved or the Code repealed. This Code provides a reference framework for ensuring responsible management and ethical behaviour among all members of the organisation in their work. The Code sets out our corporate values and behavioural guidelines, based on our principles and commitments, and demonstrates the company's firm commitment to transparent and ethical management. The Code applies to everyone in the Group. All Group employees receive a copy of the Code of Ethics and Corporate Values, together with appropriate training, either by attending courses and/or distance training, and it is also permanently available in both the internal rules and on the corporate website.

The Code of Ethics is reviewed on a regular basis to keep its requirements in line with the needs of the Company and its relationship with the environment and its stakeholders. The latest version incorporates ethical management recommendations and requirements proposed by leading international bodies, such as the United Nations (UN), the European Union (EU), the Organisation for Economic Cooperation and Development (OECD) and organisations such as Transparency International and Fundación Étnor, amongst others.

In terms of financial information, it includes the following descriptions of our corporate values:

- "Trustworthiness" - committed to preparing and providing reliable, accurate and realistic information, especially financial data.
- "Responsibility" - all decisions and actions must comply with the legal system and be the result of a thoughtful process in which the possible consequences resulting thereof are assessed.
- "Leadership and Creativity" - commitment to management excellence is supported by efficient systems and processes, of which one valued element is participation and pride of belonging. It is also supported by the systematic quest for improvement, and in the identification and application of best practices. Transparent internal and external communication is an important element in the consolidation of business leadership.

The body in charge of examining infringements and proposing corrective action and sanctions is the Ethics Manager and Ombudsman of stakeholders, with assistance from the Chairman of the Red Eléctrica Group and the chairmen of the Auditing and Appointment and Remuneration Committees.

- Internal Code of Conduct on the Stock Exchange:

The "Internal Code of Conduct on the Stock Exchange" was initially approved by the Board of Directors on 25 June 2009 and has subsequently been partly updated in various articles.

The Code provides rules of conduct on stock exchanges and mandatory registers, in relation to the following:

- Confidential and Relevant Information
- Conflicts of Interest
- Related Parties





OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



- Rules on free pricing
- Treasury stock

The Code is applicable to the Obligated Parties described in Articles 2 and 3 (Directors, the Secretary and Deputy Secretary of the Company, as well as other persons whose ordinary tasks are related to the stock exchange and are expressly designated by the Oversight Body).

All obligated persons will receive a copy of the Code, and will sign a statement confirming receipt and awareness of the binding obligations, as indicated in Article 2.2.2.

The Oversight Body, for the purposes of this Code, as described in Article 11, is the Corporate Economic-Financial Management, which may be assisted by the Secretary's Office of the Board of Directors for any legal matters derived from its application or interpretation.

The "Internal Code of Conduct on the Stock Exchange" is periodically reviewed in order to adjust its requirements to the company's needs and its relationship with surroundings and stakeholders. The latest update took place in June 2014. In this new version, the member companies of the Group have been updated.

- Corporate Responsibility Policy

The object of this Policy is to establish principles and general guidelines so that all member companies of the Red Eléctrica Group are able to carry out a sustainable, ethical and responsible business management further to their tasks.

- **"Whistle-blowing" channel, for the reporting to the Auditing Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

The "Code of Ethics: values and commitments" sets out in detail the system for reporting, queries and suggestions. A system is included for receiving and processing potential infringements due to ethical, commercial, financial and accounting offences, and complaints under the Code. Any interested party may report any such alleged infringement.

Claims should be submitted, preferably, by electronic means. On the website of each company, there will be an easily accessible and visible channel through which claims can easily be sent to the Ethics Manager. The system will guarantee confidentiality and protect against reprisals in all its stages. The Ethics Manager will undertake to provide total

confidentiality in carrying out his/her functions; this commitment will be extended to those who provide him/her internal support.

Furthermore, there is another channel to report infringements, complaints, consultations and ethical suggestions: the DÍGAME Service. This enables applications to be received from external stakeholders without access to the foregoing channels.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

The Human Resources Department manages and plans all matters concerning training programs and other support items, based on the training plan prepared by the relevant Department. The Corporate Economic-Financial Management, as the executor in charge of designing, implementing, operating and guaranteeing the consistency of ICFR, proposes training plans to the Human Resource Department to ensure that all training plans are updated for the entire staff involved in reporting and reviewing financial information, including ICFR evaluation.

## F.2 Risk assessment in financial reporting

Report at least:

### F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- **The process exists and is documented.**

The Company bases its risk identification process, including risks of error or fraud in financial information, on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology, implementing practice to design and maintain an internal control system that provides reasonable security with respect to the reliability of regulated financial information.

The Internal Control System Manual for the Group's Financial Information has documented a risk evaluation process for financial information. This procedure is available in the Company's ICFR management tool, to which the managers involved have access.

- **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation,**



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



**disclosure and comparability; and rights and obligations), is updated and with what frequency.**

The ICFR matrix intends to identify any accounts and breakdowns with a significant associated risks and with a material potential impact on financial information. In this process to identify significant accounts and breakdowns, quantitative and qualitative factors have been taken into account (complexity of operations, risk of fraud, level of process standardization and others), being updated yearly.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies. etc.**

The Auditing Committee is responsible for supervising the consolidation perimeter. The procedure for the review and authorisation of the financial information is formalised each month through internal reviews Corporate Economic and Financial Management level and culminates in its submission to the Auditing Committee and subsequently to the Board of Directors. These reviews submit for approval, among other aspects, the consolidation perimeter and any other complex corporate structure, instrumental entities or special purposes vehicles.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The Risk Management and Internal Auditing department is responsible for supporting the Auditing Committee in its risk evaluation tasks in close collaboration with the various units controlling each of the aforementioned risks (IT, Financial, Legal, Tax and Environmental Departments, etc.).

- **Which of the company's governing bodies is responsible for overseeing the process.**

The Auditing Committee supervises the efficacy of the internal control and risk management systems, so that the principal risks are adequately identified, managed and disclosed.

### F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

- F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud)**

**for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.**

Financial reporting is periodically reviewed, to include an ICFR description, according to varying levels of responsibility, in order to guarantee the quality of information.

The Department of Accounting Information and Administration, which is hierarchically dependent on the Group's Economic Management, revises and formally validates all financial data drawn up and reported to the Corporate Economic-Financial Manager, in order to ensure its reliability, on a monthly basis.

The procedure to review and authorise financial information is formalized monthly through internal audits by the Corporate Economic-Financial Management and ends when it is presented to the Auditing Committee and subsequently to the Board of Directors. These reviews submit for approval on the part of the Auditing Committee the consolidation perimeter, accounting and tax criteria, and relevant opinions, estimates and forecasts used in preparing the Financial Statements.

Amongst its tasks, the Corporate Economic-Financial Management is entrusted with supervising the design process, implementation, operation and consistency of ICFR, and to keep the Auditing Committee duly informed on the matter. these tasks have been delegated to the Economic Management.

In turn, the Economic Management should ensure that ICFR is adequately designed and implemented, and guarantee its operation and consistency.

The Internal Auditing and Risk Management Department is in charge of supporting the Auditing Committee when supervising and evaluating ICFR, by conducting audits, included in its annual plan, and reporting their results.

All units involved in financial reporting should ensure that ICFR is fulfilled, updated and maintained, within their area of responsibility.

The ICFR implemented in the Company involves the entire organization, by implementing and periodically supervising the operation of various checks in relation to financial reporting. The ICFR dates back to 2008 and is part of a voluntary project; it has adjusted to all regulatory requirements and is being reviewed by an independent third party since 2008.

Each year, any key processes/subprocesses identified as material are documented through flowcharts. These processes/subprocesses cover the various types of transactions that may have a material effect on the financial statements, as well as



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



any that may be affected by relevant judgments, estimates, valuations and projections.

All documentation is provided to the managers of each cycle/subcycle and has been endorsed by the managers of the checks documented in the ICFR control and risk matrix, through an ordinary approval channel, and is disseminated amongst all participations.

Documentation describing the activity flows and checks (including those related to risks of fraud) includes:

- Details of procedures and internal rules, regulating matters ranging from general checks to subprocesses.
- Details of organizational structures.
- Details of significant cycles.
- Flowcharts for each subprocess.
- Description of the process, specific risk covered, initial information before the check and subsequent output after the check, frequency, object covered, potential mitigated errors, coverage of fraud and typology and the department in charge of execution.
- Details of all data systems affecting automatic and/or semi-automatic processes.

The major transactions that attempt to ensure reliability and transparency in the process for drawing up the financial information include, in particular:

- Reviewing the processes for estimates and provisions (at the level of income and expenses).
- Reviewing impairment of registered assets (essentially referring to assets).
- Reviewing the bringing of assets into operation and the associated valuation processes (capitalizable items, monitoring administrative approvals, technical conditions for commissioning, etc.).
- Review through specific, mandatory procedures and/or instructions:
  - o Manual recording and/or accounting entries.
  - o One-off operations (assessment at the level of senior management of potential economic financial, corporate and legal implications of such operations).
  - o Closing the Financial Statements and drawing up the individual and consolidated Financial Statements. The internal rules that govern these points are set out in: (i)

the "Accounting Policies Manual and Group Accounting Plan" (setting out the accounting policies to be followed by the Group when recording accounting entries in the information system, and for drawing up the Financial Statements and the Annual Accounts, for the purpose of ensuring a true and fair view of net equity, the financial situation, the results of operations, changes in net equity and cash flows) and; (ii) the "Procedures for drawing up and closing the Financial Statements and the individual and consolidated Financial Statements" which states that "the process for closing the financial statements takes place twice a year (at year-end and half-way through the year when interim half-yearly information is prepared), with the purpose of obtaining financial statements that reflect the company's economic situation. In this process all the companies in the group that have to draw up their own financial statements in accordance with the local rules in force in their own countries are affected".

- o Drawing up and publishing the financial information (including aspects relating to the preparation and approval of the Annual Corporate Governance Report, Annual Accounts, Corporate Responsibility Report, notifications to the National Securities Exchange Commission, official notifications, etc.). The main internal rules governing these aspects are set out in: (i) the "Internal Code of Conduct on the Securities Market", (ii) the "Procedure for drawing up and closing the Financial Statements and individual and consolidated Financial Statements". At this specific level of closure of information and, as applicable, subsequent publication, the Investor Relations Department, the Corporate Economic and Financial Department, the Office of the Secretary, the Board of Directors and Chairman, play an essential role.

**F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

The Group has implemented a conduct Protocol on the use of IT and communications systems for which the Corporate Systems and IT Management is responsible.

The document establishes the main rules governing the use of computer and telecommunication resources that the Group provides to its workers (equipment, applications, Internet access and electronic messaging services).

In turn, the Group has a procedure on Computer Security for its corporate IT systems, regulating the main activities followed to manage



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



security in IT system surroundings, entrusted to the Corporate Systems and IT Management.

The following checks and measures have been implemented to ensure that the Group can reasonably guarantee the internal control of its IT systems:

- Each year, a risk analysis is conducted on the security of information in Corporate Information Systems (CIS), to obtain a list of the most relevant risks for appraisal, establishing any measures and steps to reduce or maintain the risk level of those deemed most relevant.

- Each year, security regulations are reviewed or whenever there is a significant change, in order to ensure their suitability, adequacy and efficiency.

- An inventory is kept of all assets (equipment, software, applications and data) included in the CIS.

Each asset will be assigned an organizational unit in charge.

- General measures will be established for data protection depending on its classification category. In turn, the management unit may define specific measures to complement any general measures.

- Data security information is drafted and published, addressed to employees and external collaborators.

- The managers of all Units will check that any new employees and external collaborators are aware of the data security documentation published. Furthermore, they will ensure that these fulfil the specifications of the documentation.

- The Human Resources Management will inform the Systems and IT Department of all movements of internal and external staff (de-registrations, registrations, transfers and relocations) in order to apply the necessary changes in data system access rights.

- All employees and collaborators will return the computer equipment in their hands at the end of their job, contract or relationship with the company and may not withhold any information.

- A risk evaluation will be conducted to determine any security implications derived from the participation of external collaborators in business processes, defining and implementing the necessary checks.

- The Human Resources Management will define and implement physical security measures to protect the facilities where data systems are located, against damage from fire, flooding and other natural or human-caused disasters. Furthermore, it will establish adequate entry checks at restricted access areas to ensure that only authorised staff is allowed to enter.

- The Systems and IT Department will ensure that all data systems under its management are adequately and safely operating, by drawing up and implementing appropriate operating procedures. This procedure will contemplate task segregation to reduce the risk of negligence or deliberate misuse of the system. If computer services are provided by third parties, the Systems and IT Department will check that all security control measures and service levels agreed have been implemented and maintained by third parties.

- The Systems and IT Department is in charge of defining rules and procedures to manage user access (authentication and authorisation) to data systems.

- Formal communication procedures will be established to ensure that information security events and weaknesses associated to data systems are reported in such a way as to enable adequate corrective action.

- A Computer Contingency Plan (CCP) is drawn up for data systems so that, in the event of disaster destroying the systems or preventing access, service is able to be reinstated in a period of time in line with its criticality.

**F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.**

The Group is particularly concerned about operations carried out by third parties (in order to ensure a maximum guarantee of control in any key processes that might be outsourced, in relation to the standards required by the Group at the level of its processes).

In all cases, the outsourcing of such activities is set out in a service agreement, which clearly specifies the service in question and the means to be used by the service provider to provide the service. Exhaustive control is conducted over these outsourced activities, with evidence of such control.

Furthermore, the Group has established a code of conduct for its suppliers in order to make them aware of the general principles applicable to all areas of employment and professional activity. The Group seeks to ensure that these policies are continuously applied by its suppliers.

**F.4 Information and communication**

Indicate the existence of at least the following components, and specify their main characteristics:

**F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual**



of accounting policies regularly updated and communicated to all the company's operating units.

The Economic Information and Administration Department, as part of the Economic Management, is responsible for defining and resolving all issues related to the interpretation of accounting policies, providing coverage for all areas of the Company. The Economic Management is organizationally located within the Corporate Economic and Financial Department which, in turn, reports to the Managing Director.

The Group has developed an "Accounting Policies Manual and Group Accounting Plan" setting out guidelines and activities relating to accounting records. This is communicated to all applicable employees (all actions must be taken in accordance with the "Accounting Policies Manual and Group Accounting Plan"). This manual is updated periodically, and at least yearly, with its latest update being in 2015. In the updating processing, it was verified that the accounting policies fall within the regulatory framework applicable to the Company and which is established in the Commercial Code, General Accounting Plan and other commercial legislation, as well as International Financial Reporting Regulations adopted by the European Union.

**F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.**

The Group has formal processes in place for closing and preparing information specifically associated with the financial statements (FS) and the annual accounts. In both cases, the procedures for closing and drawing up the FS and annual account set out the guidelines for action and supervision applied in obtaining, analysing and subsequently preparing the information for final approval.

The support system for transactions made in the Group is mainly SAP. Those companies where SAP is not used are obliged to follow the criteria established by the group to ensure the uniformity of such processes through a reporting package prepared to such end which includes all breakdowns necessary for preparing the FS and notes. In the process for preparing the consolidated financial information and its breakdowns, a computer application is used ensuring the homogeneity, standardisation and validity of the information.

The ICFR is supported by a corporate tool managed centrally from which the detailed information of the ICFR is gathered.

In addition, there is a specific system for the entire process of preparing the Annual Accounts, where the Auditing Committee, which reports functionally to the Board of Directors, takes on particular significance. The Auditing Committee is tasked with

ensuring maximum confidence in the entire process of drawing up the information (both with respect to the supervisory tasks of the Internal Audit function and the external auditor), as a step prior to preparation by the Board of Directors.

In order to provide external agents with accurate and reliable financial information about its net equity, financial situation and the result of its operations. The "Internal Code of Conduct on the Securities Market" governs these aspects, both with respect to notifications to supervisory and/or regulatory bodies, and to press releases.

**F.5 Monitoring of the functioning of the system**

Indicate the existence of at least the following components, describing their main characteristics:

**F.5.1. The ICFR monitoring activities undertaken by the Auditing Committee and an internal audit function whose competencies include supporting the Auditing Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has considered their potential impact on its financial information.**

The supervision of the financial information is a responsibility entrusted to the Auditing Committee which comprises the approval of the accounting principles to be used in the preparation of the annual accounts of the Company and its consolidated Group, supervision of the preparation and presentation process, and the completeness of the financial information of the Company and, if applicable, of the Group, ensuring account is taken of regulatory requisites, the suitable delimiting of the consolidation perimeter, and the correct application of the accounting principles and criteria applicable.

In addition, the Auditing Committee periodically supervises the efficacy of the internal control and risk management systems, so that the main risks may be suitably identified, managed and reported and, in particular, those systems relating to the process of reporting the financial information, including the ICFR. The objective of the ICFR is to provide reasonable security as to the reliability of the financial information.

In order to carry out these functions, the Auditing Committee is supported by Internal Audit and Risk Control Management, which depends hierarchically on the Chairman of the Company, and functionally on the Auditing Committee. The Auditing Committee ensures the independence and efficacy of the internal auditing



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



function, supervises and controls the process for the selection, appointment, re-election and removal of the person responsible for the auditing service, and controls the means and resources assigned to the internal auditing service, including their budget. It receives periodical information on their activities and verifies that the senior management of the Company and the Group takes into account the conclusions and recommendations of its report.

The person responsible for internal auditing must submit to the Auditing Committee an annual work plan, directly report any incidents arising from its performance and submit an activities report at the end of each financial year. As regards the ICFR, the internal auditing work plan is intended to cover the entire ICFR in periods of 3 years. Internal Auditing designs and executes a test plan on the control environment, general controls, controls on an area level and the procedures established. It also verifies the fulfilment of the flowcharts designed, on selective bases. Once the field work has been carried out, Internal Auditing prepares and issues the auditing reports of the ICFR, depending on the content of the annual work plan approved by the Auditing Committee, and verifies the correct implementation of the corrective actions in respect of the ICFR.

In addition to the auditing works performed by Internal Auditing in relation to the ICFR, each year an ICFR audit is commissioned with the scope of reasonable assurance, design and effective application of the same. This ICFR audit by the external auditors has been carried out since 2008.

The Committee is promptly informed of the reviews carried out by Internal Auditing, the review made by the external auditor, other tasks performed in the ICFR, and the progress of the action plan of the recommendations on improvements detected in the audits. These recommendations on improvements are classified into high priority and average to low priority and those associated with the risk of fraud are described.

In 2015, no significant deficiencies in the ICFR of the Group were detected, and the external auditor concluded that the Group has an effective ICFR.

**F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Auditing Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

The Regulations of the Board of Directors, in relation to external auditors, periodically demand that, at least once a year, the quality of the Group's internal control procedures be evaluated.

As regards the Company's Auditing Committee, with respect to the supervision of the functioning of the System, its objectives include ensuring that the auditor, the Internal Audit function and other experts can report to management and to the Board of Directors on major internal control weaknesses identified in the processes for reviewing the financial statements and in any other processes entrusted to them. In this regard, reports are prepared for each review task on completion, and prior to the Board of Directors drawing up the financial statements.

#### F.6 Other relevant information

#### F.7 External auditor review

State whether:

**F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.**

Since 2008, REE has voluntarily presented its ICFR for review. These reviews have been conducted by Deloitte, S.L. until 31 December 2012, and by PricewaterhouseCoopers from 1 January 2013 until 31 December 2014 and KPMG, S.L. since 1 January 2015.

### G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the good corporate governance recommendations for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

**1. The By-laws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

Compliant  Explain

**2. When a dominant and a subsidiary company are 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.**



Compliant  Partially compliant  Explain  Not applicable X

3. When an ordinary general meeting is held, as a complement to the written publication of the annual corporate governance report, the chairman of the board of directors reports verbally to the shareholders, in sufficient detail, on the most relevant aspects of the corporate governance of the company and, in particular:

- a) On any changes which have occurred since the last ordinary general meeting;
- b) On the specific reasons why the company does not follow any of the recommendations of the Corporate Governance Code and, where applicable, alternative rules it applies in this area.

Compliant X Partially compliant  Explain

4. The company defines and promotes a policy of communication and contact with the shareholders, institutional investors and proxy advisors which fully respects the rules on market abuse and treats shareholders who are in the same position equally.

The company publishes such policy through its webpage, including information on the way in which it is put into practice, identifying the interlocutors or those responsible for carrying it out.

Compliant  Partially compliant X Explain

Pursuant to the Corporate Governance Policy approved by the Board of Directors of the Company on 25 November 2014, and published on the corporate webpage, within the framework of the principle of consolidating, developing and promoting symmetrical mechanisms of dialogue and commitment with the shareholders and investors, the company attempts to meet the needs of foreign institutional shareholders given their significant presence in the shareholding of the company, and of the most relevant proxy advisors and other groups of interest, in order to improve relations, increase commitment and strengthen the trust of the same, without undermining the guarantees and equal treatment of the rest of the shareholding.

The relations of the Company with its shareholders and institutional investors are generic and not particular or specific to any of them.

The Company frequently organises road shows carried out by the top executives of the Company, in the main financial areas of Spain and abroad where there is a greater presence of institutional investors, to inform on its activities and the progress of its business, in an attempt to better approach this group of investors.

5. The board of directors does not raise before the general board any proposal for the delegating of powers, for issuing shares or convertible bonds excluding the preferential subscription right, for any amount more than 20% of the capital at the time of the delegating.

When the board of directors approves any issuance of shares or convertible bonds excluding the preferential subscription right, the company immediately publishes on its webpage the reports on such exclusion mentioned in commercial legislation.

Compliant X Partially compliant  Explain

6. Listed companies preparing the reports mentioned below, whether obligatorily or voluntarily, publish them on their webpage with sufficient notice prior to any general ordinary general meeting, even if such publication is not obligatory.

- a) Report on the independence of the auditor.  
b) Reports on the functioning of the auditing and appointment and remuneration committees.  
c) Report from the auditing committee on related transactions.  
d) Report on the corporate social responsibility policy.

Compliant X Partially compliant  Explain

7. The company broadcasts live, through its webpage, general shareholders' meetings.

Compliant X Explain

8. The auditing committee ensures the board of directors submits the accounts to the general shareholders' meeting without limitations or exceptions in the auditing report and that, in exceptional circumstances in which exceptions exist, both the chairman of the auditing committee and the auditors clearly explain to the shareholders the content and scope of such limitations or exceptions.

Compliant X Partially compliant  Explain

9. The company permanently publicises on its webpage the requisites and procedures it will accept for evidencing ownership of the shares, the right to attend the general shareholders' meeting and the exercise or delegation of the right to vote.

Such requisites and procedures favour the attendance and exercise of the rights of the shareholders and are applied non-discriminatorily.

Compliant X Partially compliant  Explain

10. When any entitled shareholder has exercised, prior to the general shareholders' meeting, the right to complete the agenda or to submit new resolution proposals, the company:

- a) Immediately disseminates such complementary points and new resolution proposals.  
b) Publicises the form of attendance card or vote delegation form or remote voting with the amendments necessary for the new points of the agenda and alternative resolution proposals to be voted on in the same terms as those proposed by the board of directors.



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



c) Submits all these points or alternative proposals to a vote applying the same voting rules as to those made by the board of directors, including, in particular, any presumptions or deductions as to who the vote is for.

d) Subsequent to the general shareholders' meeting, it reports the breakdown of votes on such complementary or new proposals:

Compliant  Partially compliant  Explain  Non-applicable X

11. In the event the company envisages paying attendance fees to the general shareholders' meeting, it first establishes a general policy on such fees, and such policy is stable.

Compliant  Partially compliant  Explain  Non-applicable X

12. The board of directors performs its functions with one sole purpose, with independent criteria, treats all shareholders in the same position equally and is guided by the corporate interest, this being understood to mean the achieving of a profitable business sustainable in the long term, promoting its continuity and maximising the financial worth of the company.

In striving for the corporate interest, apart from respecting laws and regulations and actions based on good faith, ethics and a respect for uses and commonly accepted good practices, it attempts to reconcile the corporate interest with, accordingly, the legitimate interests of its employees, suppliers, clients and other groups of interest which might be affected, and the impact of the activities of the company on the community as a whole and on the environment.

Compliant X Partially compliant  Explain

13. The board of directors is of the size necessary to operate effectively and in a participative manner, meaning five to fifteen members are recommended.

Compliant X Explain

14. The board of directors approves a director selection policy which:

a) Is specific and verifiable.

b) Ensures proposals for appointments or re-elections are based on a prior analysis of the needs of the board of directors.

c) Favours diversity of knowledge, experience and gender.

The result of the prior needs analysis of the board of directors is contained in the justifying report of the appointment committee published in calling the General Meeting to which the ratification, appointment or re-election of each director is submitted.

The director selection policy promotes the objective of the number of female directors representing at least 30% of the total number of members of the board of directors by the year 2020.

Each year, the appointments committee will verify the fulfilment of the director selection policy and will report on this in the annual corporate governance report:

Compliant  Partially compliant X Explain

As regards the selection of directors, the Appointments and Remuneration Committee is based on a general matrix of competences containing the criteria defining the profile and requisites considered appropriate for the performance of the position of director of the Company, and analyses the qualities, competences and experience the ideal director to hold the position should have, regardless of their category.

In each candidate selection process, the Appointments and Remuneration Committee analyses the profile of the candidates and evaluates whether it is the ideal profile for the performance of the position of the director for the type vacant in the Company.

For this, the Appointments and Remuneration Committee complies with the basic responsibilities established in article 16.1, sections g), h), i) and l) of the Regulations of the Board of Directors.

Apart from the Corporate Governance Policy, approved by the Board of Directors on 25 November 2014, the following practices are established:

-The Company applies the principle of ensuring the existence of appropriate procedures for choosing directors, guaranteeing a reasonable balance and diversity on the Board of Directors for the suitable performance of its tasks. To do so, on evaluating the candidates participating in the selection process, the procedure takes into account the competences, experience, professionalism, suitability, independent criteria, knowledge, qualities, capacity and availability of the members of the Board of Directors from time to time, with the Appointments and Remuneration Committee assuming a relevant role in this process.

- The Company applies the principle of promoting diversity of knowledge, experience and gender in the composition of the Board of Directors and its Committees as an essential factor allowing it to attain its objectives from a balanced plural perspective.

All the foregoing was taken into account by the Appointments and Remuneration Committee and the Board of Directors in the reports and proposals prepared to cover vacancies existing on the Board of Directors in 2015, as can be seen on the corporate webpage - www.ree.es -, in relation to the Annual and Extraordinary General Meetings of Shareholders.





TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Since 2014, the Company has had 5 female directors, surpassing the objective of 40% of external directors established in the draft Directive approved by the European Commission, and the 30% established in Recommendation nº 14 of the CBGSC, both objectives being for the year 2020. For several years, the Company has held first place among companies of the IBEX 35 as for the largest percentage of women on the Board of Directors. For further information, we refer to the Diversity Report on Gender and Equality Policy approved by the Board of Directors on 27 October 2015 published on the corporate webpage - www.ree.es-.

15. **The proprietary and independent directors constitute a significant majority of the board of directors and the number of executive directors is the minimum necessary, bearing in mind the complexity of the corporate group and the participation percentage of the executive directors in the capital of the company.**

Compliant X Partially compliant  Explain

16. **The percentage of proprietary directors of the total number of non-executive directors is not greater than the proportion existing between the capital of the company represented by such directors and the rest of the capital.**

**This criterion may be moderated:**

- a) **In companies with high capitalisation in which there are few shareholder stakes legally considered to be significant.**
- b) **In companies where there are multiple shareholders represented on the board of directors and there is no line between them.**

Compliant X Explain

17. **The number of independent directors represents at least half the directors.**

However, when the company does not have high capitalisation or when, even if it does, it has one or more shareholders acting in concert who control more than 30% of the share capital, the number of independent directors represents at least one third of all the directors.

Compliant X Explain

18. **Companies publish through their webpage, and keep updated, the following information on their directors:**

- a) **Professional and biographical profile.**
- b) **Other boards of directors to which they belong, whether or not of listed companies, and any other remunerated activities performed, whatever their nature.**
- c) **Indication of the category of director to which they belong, stating, in the case of proprietary directors, the shareholder they represent or to whom they are related.**
- d) **Date of first appointment as director of the company, and that of any subsequent re-elections.**

Compliant  Partially compliant X Explain

The Company publishes and keeps updated on its webpage www.ree.es all information on directors listed in Recommendation nº 18, except for the other remunerated activities referred to in the last point of section (c) of such Recommendation. The Company does not publish such information for reasons of confidentiality since the disclosure of such information could come into conflict with the protection of the right to privacy of the directors.

19. **The annual corporate governance report, subject to verification by the appointment committee, explains the reasons why proprietary directors have been appointed at the request of shareholders whose shareholding is below 3% of the capital, and states the reasons why, where applicable, no formal requests for presence on the board were heeded, coming from shareholders whose shareholding is equal to or greater than that of others at whose request the proprietary directors were appointed.**

Compliant  Partially compliant  Explain  Non-applicable X

20. **The proprietary directors submit their resignation when the shareholder they represent transfers their stake in full. They also do so, in the corresponding reduction of the number of its proprietary directors.**

Compliant  Partially compliant  Explain  Non-applicable X

21. **The board of directors does not propose the removal of any independent director before the completion of the statutory period for which they were appointed, notwithstanding any just cause, observed by the board of directors subject to a report from the appointments committee.**

In particular, it will be understood that just cause exists when the director comes to hold new positions or undertakes further obligations preventing them from devoting the necessary time to the performance of the duties inherent in the position of director, fails to meet the duties inherent in their position or is involved in any of the circumstances meaning they are no longer classified as independent, pursuant to the provisions of applicable legislation.

The removal of independent directors may also be proposed as a result of public takeover bids, mergers or other similar corporate transactions involving a change in the capital structure of the company, when such changes to the structure of the board of directors are due to the proportionality criterion stated in the recommendation.

Compliant X Explain

22. **Companies establishing rules forcing directors to report and, if applicable, resign in those cases which might prejudice the credit and reputation of the company and, in particular, forcing them to inform the board of directors of any criminal cases in which they appear as the accused, and any subsequent procedural vicissitudes.**



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



If a director is the object of a complaint or a ruling commencing a trial for any of the offences set forth in corporate legislation, the board of directors examines the case as soon as sea possible and, in view of the specific circumstances, decides whether or not the director should continue in their position. The board of directors provides justified information on this in its annual corporate governance report.

Compliant  Partially compliant  Explain

23. All directors clearly express their opposition when they consider any proposal for a decision submitted to the board of directors may be contrary to the corporate interest. This is also the case of independent and other directors not affected by any potential conflict of interests, in matters of decisions which might prejudice those shareholders not represented on the board of directors.

Furthermore, when the board of directors adopts significant or repeated decisions about which the director might have serious reservations, the latter may gather the relevant conclusions and, should they decide to resign, explains the reasons in the letter mentioned in the following recommendation.

This recommendation also includes the secretary of the board of directors, even if they are not a director.

Compliant  Partially compliant  Explain  Not applicable

24. When, either through resignation or for any other reason, a director steps down from their position before the end of their mandate, they explain the reasons in a letter to be sent to all members of the board of directors. Moreover, notwithstanding such termination being reported as a relevant event, the reason for the termination is reported in the annual corporate governance report.

Compliant  Partially compliant  Explain  Not applicable

25. The appointments committee ensures the non-executive directors have sufficient availability of time for the correct performance of their functions.

Compliant  Partially compliant  Explain

26. The board of directors meets with the frequency necessary for effectively performing their functions, and at least eight times a year, following the schedule of dates and matters established at the start of the year, with each director being able to individually propose other items on the agenda not initially foreseen.

Compliant  Partially compliant  Explain

27. Any non-attendances of directors are reduced to essential cases and re quantified in the annual corporate governance report. When they are to take place, a proxy is granted with instructions.

Compliant  Partially compliant  Explain

28. When the directors or secretary declare their concern over any proposal or, in the case of directors, over the progress of the company, and such concerns are not resolved at the board of directors' meeting, at the request of the person raising them, they will be recorded in the minutes.

Compliant  Partially compliant  Explain  Not applicable

29. The company establishes suitable channels for directors to be able to obtain accurate advice for the fulfilment of their functions, including, if thus required by the circumstances, external advice paid by the company.

Compliant  Partially compliant  Explain

30. Regardless of the knowledge required of directors for exercising their functions, companies also offer directors knowledge update programmes when the circumstances thus recommend.

Compliant  Explain  Not applicable

31. The agenda of meetings clearly states those points in respect of which the board of directors must adopt a decision or resolution for which the directors may study or gather beforehand the information necessary for their adoption.

When, exceptionally, due to reasons of urgency, the chairman wishes to submit to the approval of the board of directors decisions or resolutions not appearing on the agenda, the prior express consent of the majority of the directors presents will be needed, and this will be recorded in the minutes.

Compliant  Partially compliant  Explain

32. The directors are periodically informed of the movements of the shareholding and of the opinion of the significant shareholders, investors and rating agencies regarding the company and its group.

Compliant  Partially compliant  Explain

33. The chairman, as person responsible for the effective running of the board of directors, as well as exercising the functions attributed to them by law and the By-laws, prepares and submits to the board of directors a schedule of dates and matters to be discussed; organises and co-ordinates the periodical evaluation of the board and, if applicable, that of the top executive of the company; is responsible for the management of the board and effectiveness of its operations; ensures sufficient time is devoted to discussing strategic questions, and agrees and reviews the revise the knowledge update programmes for each director, when the circumstances thus recommend.

Compliant  Partially compliant  Explain



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



**34. When there is a co-ordinating director, the by-laws or regulations of the board of directors, as well as the powers corresponding to them by law, attributes them with the following: chairing the board of directors in the absence of the chairperson and their deputies, where applicable; passing on the concerns of the non-executive directors; maintaining contact with investors and shareholders to hear their point of view in order to form an opinion on their concerns, in particular in relation to the corporate governance of the company; and co-ordinating the chairperson succession plan.**

Compliant  Partially compliant X Explain  Not applicable

The position of the independent co-ordinating director is regulated under article 25 *bis* of the Corporate By-laws and their purpose is developed in article 9 *bis* of the Board Regulations. Pursuant to this latter article, the essential responsibility of the independent co-ordinating director, which should be taken into account for the performance of their other functions described in the Regulations, organising possible common positions of the independent directors and serving as an intermediary or spokesperson for such common positions in respect of the chairman of the Board of Directors, the Board itself and the Board Committees. Moreover, the Board Regulations establish that the independent co-ordinating director is attributed with the following functions:

In relation to the Board of Directors:

- Collaborating with the chairman and secretary of the Board of Directors in preparing the agenda of the Board meetings, and reviewing and proposing to the Board chairman matters to be included on the agenda of each meeting.
- Chairing the meetings of the Board of Directors in which the chairman is absent or in a position of a conflict of interest, and positively assessing the issues discussed with the chairman.
- Calling meeting, whether ordinary or extraordinary, of the Board of Directors, for duly justified reasons which must be attached to the call, when such request has not been met by the chairman of the Board.
- Participating in the preparation of the annual schedule of meetings of the Board of Directors, in co-ordination with the chairman, Board secretary and the Corporate Responsibility and Governance Committee.
- Participating in the self-evaluation process of the Board and, in particular, in relation to the Board chairman and top executive of the Company, in co-ordination with the Corporate Responsibility and Governance Committee.
- Performing other responsibilities the Board of Directors expressly attributes to them, if applicable.

In relation to the independent directors:

- Being the point of connection and co-ordinator of the issues raised and proposed made by independent directors in relation to the Board of Directors.
- Calling and chairing, at their own initiative or that of another independent director, and at least once a year, formal or informal meetings of independent directors, defining the issues to be discussed, which may deal, *inter alia*, with the basic responsibilities of the Board of Directors and senior management, with the possibility of requesting the presence of executives thereon.

In relation to the shareholders:

- Being available to the shareholders for any consultation or direct communication with them.

The Regulations of the Board of Directors is subject to review, mainly for their adaptation to Act 31/2014, of 3 December, amending the LSC for improving corporate governance and, to the extent the Board of Directors considers this relevant, to the new recommendations on matters of good governance set forth in the new CBGSC. However, it is of note that the only right under Recommendation nº 34 pending incorporation in the corporate regulations is that relating to the co-ordination of the chairman succession plan.

**35. The secretary of the board of directors particularly ensures that, in their actions and decisions, the board of directors takes into account the recommendations on good governance contained in this good governance Code applicable to the company.**

Compliant X Explain

**36. One a year in a plenary sessions, the board of directors evaluates and adopts, if applicable, an action plan correcting any deficiencies detected in respect of:**

- The quality and efficiency of the operations of the board of directors.
- The operations and composition of its committees.
- Diversity in the composition and competences of the board of directors.
- The performance of the chairman of the board of directors and top executive of the company.
- The performance and contribution of each director, paying particular attention to those responsible on the various board committees.

In order to carry out the evaluation of the various committees, the basis will be the report submitted by the latter to the board of directors, and for the evaluation of the latter, the report submitted to it by the appointments committee.

Every three years, the board of directors will be held to carry out the evaluation by an external consultant, the independence of which will be verified by the appointments committee.

Any business relations the consultant or any company of its group have with the company or any company of its must be described in detail in the annual corporate governance report.

The process and areas evaluated will be the object of description in the annual corporate governance report.

Compliant X Partially compliant  Explain

**37. When there is an executive committee, the participation structure of the various categories of director will be similar to that of the actual board of directors and the secretary, when of the latter.**

Compliant  Partially compliant  Explain  Not applicable X



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



38. The board of directors are always aware of the matters discussed by the executive committee and all the members of the board of directors receive a copy of the minutes of the meetings of the executive committee.

Compliant  Partially compliant  Explain  Not applicable X

39. The members of the auditing committee, and in particular its chairman, are designated taking into account their knowledge and experience in matters of accounting, auditing or risk managements, and the majority of such members are independent directors.

Compliant X Partially compliant  Explain

40. Under the supervision of the auditing committee, a unit is available assuming the function of internal auditing ensuring the smooth running of the information systems and internal control, depending functionally on the non-executive chairman of the board or that of the auditing committee.

Compliant  Partially compliant  Explain X

The company has a unit assuming the function of internal auditing ensuring the smooth running of the information systems and internal control. Such unit depends hierarchically and functionally on the chairman of the Board of Directors which, until the Ordinary General Shareholders' Meeting of 2016, is executive in nature. As a result, the total fulfilment of this recommendation will effectively take place at the next Ordinary General Shareholders' Meeting.

41. The person responsible for the unit assuming the function of internal auditing presents the auditing committee with its annual work plan, reports directly on any incidents arising in its performance and submits an activity report at the end of each financial year.

Compliant X Partially compliant  Explain  Not applicable

42. Apart from those established by law, the following functions correspond to the auditing committee:

1. In relation to the information systems and internal control:

a) Supervising the preparation process and completeness of the financial information relating to the company and, if applicable, to the group, reviewing compliance with regulatory requisites, the suitable delimitation of the consolidation perimeter and the correct application of accounting criteria.

b) Ensuring the independence of the unit assuming the function of internal auditing; proposing the selection, appointment, re-election and removal of the person responsible for the internal auditing service; proposing the budget for such service; approving the guidelines and work plan, ensuring its activity is focused mainly on the relevant risks of the company; receiving periodical information on its activities; and verifying that senior management takes into account the conclusions and recommendations of its reports.

c) Establishing and supervising a mechanism enabling employees to communicate confidentially and, if possible and if considered appropriate, anonymously, any

potentially relevant irregularities, especially related to finance and accounts, they might note within the company.

2. In relation to the external auditor:

a) In the event of the renoucement of the external auditor, examining the circumstances which gave rise to this.

b) Ensuring the remuneration of the external auditor for their work does not compromise the quality or independence.

c) Ensuring the company reports to the CNMV as a relevant event the change of auditor, attaching a declaration on the possible existence of any disagreements with the outgoing auditor and, where applicable, their content.

d) Ensuring the external auditor holds a yearly meeting with the plenary board of directors to inform them of the work carried out and on the progress of the accounting situation and risks of the company.

e) Ensuring the company and the external auditor respect prevailing rules on the provision of services other than auditing, limits on the concentration of the business of the auditor and, in general, any other rules on the independence of the auditors.

Compliant X Partially compliant  Explain

43. The auditing committee may summons any employee or executive of the company and may even order them to appear without the presence of any other executive.

Compliant X Partially compliant  Explain

44. The auditing committee is informed on the structural and corporate modification transactions the company might plan to perform for their analysing and prior reporting to the board of directors on their economic conditions and accounting impact and, in particular, if applicable, on the exchange ratio proposed.

Compliant X Partially compliant  Explain  Not applicable

45. The control and risk management policy identifies at least:

a) The different types of risk, financial and non-financial (including operational, technological, legal, social, environmental, political and reputational) the company might face, including among the financial or economic risks any contingent liabilities and other off-balance sheet risks.

b) The establishing of the risk level the company considers acceptable.

c) The measures envisaged for mitigating the impact of the risks identified, should these be materialised.

d) Information and internal control system to be used for controlling and managing the said risks, including contingent liabilities or off-balance sheet risks.



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Compliant  Partially compliant  Explain

46. Under the direct supervision of the auditing committee or, if applicable, a special committee of the board of directors, and internal control and risk management function exists carried out by the internal department or unit of the company expressly attributed with the following functions:

- a) Ensuring the smooth running of the control and risk management systems and, in particular, the suitable identifying, managing and quantifying of all significant risks affecting the company.
- b) Participating actively in the preparation of the risk strategy and in the important decisions on their management.
- c) Ensuring the risk management and control systems mitigate the risks appropriately within the framework of the policy defined by the board of directors.

Compliant  Partially compliant  Explain

47. The members of the appointments and remuneration committee, or of the appointments committee and remuneration committee, if separate are designated ensuring that they have suitable knowledge, aptitudes and experience for the functions they are to perform, and the majority of such members should be independent directors.

Compliant  Partially compliant  Explain

48. Those companies with high capitalisation have an appointments committee with a separate remunerations committee.

Compliant  Explain  Not applicable

The company has not considered it suitable to have a separate Appointments Committee and Remuneration Committee for the following reasons:

- Due to the limited size of the Board of Directors (consisting of 12 members, 2 of them being executive directors) in comparison with other companies with high capitalisation.
- Because, bearing in mind the subject matter, a separate Appointments Committee and Remuneration Committee would not have sufficient matters during one financial year to justify the separation.
- Due to the independence of the non-executive directors, bearing in mind that, at present, all of them are members of one of the two Committees of the Board of Directors of the company, and the creation of a new Committee would involve this comprising directors belonging to several committees at once, who would have information from one of the other two Committees, to the detriment of their full autonomy for exercising their responsibilities.

49. The appointments committee consults the chairman of the board of directors and top executive of the company, especially for matters relating to the executive directors.

Any director may ask the appointments committee to take into consideration potential candidates for covering director vacancies, if they find them suitable in their opinion.

Compliant  Partially compliant  Explain

50. The remuneration committee exercises its functions independently and, apart from the functions attributed to it by law, the following also correspond:

- a) Proposing to the board of directors the basic conditions of contracts with senior executives.
- b) Checking observance of the remuneration policy established by the company.
- c) Periodically reviewing the remuneration policy applied to directors and senior executives, including share remuneration systems and the application thereof, and guaranteeing that their individual remuneration is proportionate to that paid to other directors and senior executives of the company.
- d) Ensuring that any possible conflicts of interest do not prejudice the independence of the external advice provided to the committee.
- e) Verifying the information on the remuneration of the directors and senior executives contained in the various corporate documents, including the annual report on the remuneration of the directors.

Compliant  Partially compliant  Explain

51. The remuneration committee consults the chairman and top executive of the company, especially over matters relating to executive directors and senior executives.

Compliant  Partially compliant  Explain

52. The rules on the composition and operations of the supervisory and control committees appear in the regulations of the board of directors and are consistent with those applicable to committees legally obligatory in accordance with previous recommendations, including:

- a) Consisting exclusively of non-executive directors, with a majority of independent directors.
- b) Their chairpersons must be independent directors.
- c) The board of directors designates the members of these committees bearing in mind the knowledge, aptitudes and experience of the directors and tasks of each committee, discusses its proposals and reports, and, at the first plenary session of the board of directors after its meetings, reports on its activity and they are responsible for the work performed.
- d) The committees may receive external advice, when they consider this necessary for the performance of their duties.
- e) Minutes must be made of their meetings, which will then be made available to all the directors.



Compliant  Partially compliant  Explain  Not applicable

53. The supervision of the fulfilment of the rules on corporate governance, internal codes of conduct and corporate social responsibility policy is attributes to or distributed among several committees of the board of directors, such as the auditing committee, appointments committee, corporate social responsibility committee, where applicable, or a special committee that the board of directors, exercising its powers of self-organisation, might decide to create to such end, to which the following minimum functions are specifically attributed:
- The supervision of the fulfilment of the internal codes of conduct and rules of corporate governance of the company.
  - The supervision of the communication strategy and relationship with shareholders and investors, including small- and medium-sized shareholders.
  - The periodical evaluation of the suitability of the corporate governance system of the company, in order for it to complete its mission of promoting the corporate interest and, accordingly, taking into account the legitimate interests of the other interest groups.
  - The reviewing of the corporate responsibility policy of the company, ensuring this is aimed at the creation of value.
  - The following of the strategy and practices of corporate social responsibility and the evaluation of its degree of compliance.
  - The supervision and evaluation of the relationship processes with the various interest groups.
  - The evaluation of everything relating to non-financial risks of the company, including operational, technological, legal, social, environmental, political and reputational risks.
  - The co-ordination of the reporting process for non-financial information and on diversity, in accordance with applicable regulations and international standards of reference.

Compliant  Partially compliant  Explain

54. The corporate social responsibility policy includes the principles or commitments that the company assumes in its relationship with the various interest groups and identifies at least:
- The objectives of the corporate social responsibility policy and development of support instruments.
  - The corporate strategy relating to the sustainability, the environment and social questions.
  - Specific practices in matters related to: shareholders, employees, clients, suppliers, social matters, the environment, diversity, tax liability, the respecting of human rights and the prevention of unlawful actions.
  - The methods or systems for monitoring the results of the application of the specific practices mentioned in the previous point, associated risks and their management.
  - Mechanisms for the supervision of non-financial risk, ethics and business conduct.
  - Channels for communication, participation and dialogue with interest groups.
  - Practices of responsible communication preventing the manipulation of information and protecting integrity and honour.

Compliant  Partially compliant  Explain

55. The company, in a separate document or in the management report, reports on matters related to corporate social responsibility, using for this any of the methods accepted internationally.

Compliant  Partially compliant  Explain

56. The remuneration of the directors is that necessary for attracting and retaining directors of the desired profile and for remunerating the devotion, qualification and responsibility the position requires, but not so high so as to compromise the independence of criteria of the non-executive directors.

Compliant  Explain

57. The executive directors are limited to the variable remuneration linked to the performance of the company and personal performance, as well as remuneration through the delivery of shares, options or rights over shares or instruments indexed to the share value and the long-term savings systems such as pension plans, retirement plans or other social benefit systems.

The delivery of shares may be contemplated as remuneration to non-executive directors when subject to their keeping them until they cease to be directors. The foregoing will not apply to those shares the director may need to dispose of, if applicable, to meet the costs relation to their acquisition.

Compliant  Partially compliant  Explain

58. In the case of variable remuneration, the remuneration policies include the limits and technical precautions necessary for ensuring that such remuneration is related to the professional performance of its beneficiaries and does not derive solely from the general progress of the markets or business sector of the company or other similar circumstances.

In particular, the variable components of the remuneration:

- Are related to the performance criteria predetermined and measurable and such criteria consider the risk assumed for obtaining a result.
- Promote the sustainability of the company and include non-financial criteria which are suitable for the creation of long-term value, and the fulfilment of the internal rules and procedures of the company and its control and risk management policies.
- Are configured on the basis of a balance between the fulfilment of objectives in the short, medium and long term, allowing remuneration for ongoing performance during a sufficient period of time for observing its contribution to the sustainable creation of value, so that the elements for measuring such performance do not only revolve around specific, occasional or extraordinary points.

Compliant  Partially compliant  Explain  Not applicable

59. The payment of a relevant part of the variable components of the remuneration is deferred for a minimum length of time sufficient for verifying that the previously established performance conditions have been met.



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



Compliant  Partially compliant  Explain  Not applicable

**60. The remuneration related to the results of the company take into account the possible exceptions appearing in the report by the external auditor and reduces such results.**

Compliant  Partially compliant  Explain  Not applicable

**61. A relevant percentage of the variable remuneration of the executive directors is linked to the delivery of shares or financial instruments indexed to their value.**

Compliant  Partially compliant  Explain  Not applicable

Red Eléctrica will submit to the approval of the Ordinary General Shareholders' Meeting of 2016 a proposal for amendments to the policy for the remuneration of the directors approved by the Ordinary General Meeting of 2015. These amendments include the delivery of 25% of the annual variable remuneration of the executive director in the form of shares of the company. Such remuneration item is set forth in the annual report on the remuneration of the directors of the company approved by the Board of Directors at the meeting held on 23 February 2016 and notified as a relevant event to the CNMV.

**62. Once the shares or options or rights over shares corresponding to the remuneration systems have been attributed, the directors cannot transfer ownership of a number of shares equivalent to twice their annual fixed remuneration, and cannot exercise the options or rights until a period of at least three years as from their attribution has elapsed.**

**The foregoing will not apply to any shares which the director may need to dispose of, if applicable, to meet the costs related to their acquisition.**

Compliant  Partially compliant  Explain  Not applicable

Red Eléctrica will submit to the approval of the 2016 Annual General Meeting a proposal to amend the policy on the remuneration of directors approved by the 2015 Annual General Meeting. Among these amendments, the managing director assumes the undertaking in respect of the company to maintain ownership of the shares received as annual variable remuneration each financial year, for at least five years. After a period of five years, if the objectives have been fully met, the managing director will have constituted a number of shares equivalent to approximately one year's fixed remuneration.

Such remuneration item is set forth in the annual report on the remuneration of the directors of the company approved by the Board of Directors at the meeting held on 23 February 2016 and notified as a relevant event to the CNMV.

**63. Any contractual agreements include a clause allowing the company to claim for the reimbursement of the variable components of the remuneration when the payment has not been in line with the performance conditions or when payment has been made taking into account data the inaccuracy of which is proven subsequently.**

Compliant  Partially compliant  Explain  Not applicable

**64. Any payments for the termination of the agreement do not exceed an established amount equivalent to two years' total annual remuneration and are not paid until the company has been able to verify that the director has complied with the previously established performance criteria.**

Compliant  Partially compliant  Explain  Not applicable

## H OTHER INFORMATION OF INTEREST

**1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.**

**2. You may include in this section any other information, clarification or observation related to the above sections of this report.**

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

**3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.**

1. For several years now, the Company voluntarily has been drawing up an Annual Corporate Governance Report, available on the corporate website, following its own model, structure and content. It intends to adequately respond to its shareholding's requirements and recommendations (to which we refer for any interested third party). This Report, drawn up according to the Standard Form provided in Annex I to CNMV Circular 7/2015, has been included as an Official Annex to said Annual Corporate Governance Report of the Company.

2. The Company is subject to Spanish legislation on matters of corporate governance. Below is complementary information in relation to the following sections:

C.1.11: Apart from the positions indicated, Mr José Folgado Blanco and Mr Juan Francisco Lasala Bernad hold the following positions in the companies of the Group whose parent company is Red Eléctrica Corporación, S.A.:

- Mr José Folgado Blanco and Mr Juan Francisco Lasala Bernad are joint directors of Red Eléctrica Infraestructuras de Telecomunicación, S.A.U. and Red Eléctrica Infraestructuras en Canarias, S.A.U. In Red Eléctrica Infraestructuras de Telecomunicación, S.A.U., both have executive duties.



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER



- Mr Juan Francisco Lasala Bernad is joint director of Red Eléctrica Financiaciones, S.A.U., director and alternate chairman of the Board of Red Eléctrica del Sur, S.A., director of Transmisora Eléctrica del Sur, S.A., director of Transmisora Eléctrica del Sur 2, S.A., and director and chairman of the board of Red Eléctrica de Chile, SpA. In Red Eléctrica Financiaciones, S.A.U. and Red Eléctrica de Chile, SpA he has executive duties.

For the effects of this section, it is considered that they have executive duties when they have been granted powers in their favour by each company.

C.1.16: Mr Andrés Seco García left the Company on 18 November 2015.

C.1.17: As regards the information requested in this section, Mr José Ángel Partearroyo Martín is director of S.E. Correos y Telégrafos, S.A., with tax ID code nº 183052407, which belongs to the group of the significant shareholder, Sociedad Estatal de Participaciones Industriales (SEPI), but he is not a director of such significant shareholder (in SEPI he only holds the position of General Manager).

C.1.18: The Regulations of the Board of Directors are subject to review, mainly as regards their adaptation to Act 31/2014, of 3 December, amending the LSC for improving corporate governance and, to the extent the Board of Directors considers this relevant, to the new recommendations on matters of good governance set forth in the new CBGSC. The reform of the Regulations also intends to take advantage of this situation to introduce improvements into the organization and operations of the Board of Directors and its Committees on the basis of the experience of recent years, and to incorporate specific provisions regulating the functions and responsibilities of the managing director separately in respect of those of the chairman of the Board of Directors and to make certain formal correction related to style or order. On the date of approval of this report, work is being carried out on a document containing the most suitable amendments and updates to be submitted shortly to the Board of Directors.

C.1.26: Article 22 of the Regulations of the Board of Directors: termination is not automatic but rather the directors should place the position at the disposal of the Board of Directors and, should the latter consider this appropriate, formalise the corresponding resignation when they reach the age of 70.

C.2.1: The Board of Directors, at the meeting held on 26 January 2016, designated the proprietary director representing Sociedad Estatal de Participaciones Industriales (SEPI), Mr José Ángel Partearroyo Martín, as member of the Appointments and Remuneration Committee to cover the vacancy existing on the said Committee as a result of the resignation of Mr Francisco Ruiz Jiménez, which took place at the meeting of the Board of Directors held on 24 November 2015.

All the members of the Auditing Committee have been designated taking into account their knowledge and experience in matters of accounting, auditing or both.

G.54: The Board of Directors, at the meeting held on 24 November 2015, approved an update of the Corporate Responsibility Policy of Red Eléctrica Group to fulfil

the aspects contained in Recommendation nº 54 of the new Good Governance Code and the regulations in the area of corporative responsibility, in respect of which the company is certified (SA8000 Social Accountability and IQNet SR10). The new edition of the Corporate Responsibility Policy contains in an extended version the specific action principles contained in the corporative responsibility management system and developed in its management manual.

3. The Board of Directors de Red Eléctrica Corporación, S.A. at its meeting held on 29 September 2015, approved the adhesion of Red Eléctrica Group to the Code of Good Tax Practices, which had been approved by the Large-Scale Company Forum using the wording proposed by the Spanish Tax Authorities (AEAT), and during 2015 it complied with the content thereof.

The adhesion to the Code of Good Tax Practices of Red Eléctrica Group took place on 23 October 2015 in accordance with the adhesion procedure established therein.

This annual corporate governance report was adopted by the Board of Directors of the Company at its meeting held on 23/02/2016.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes  No



## INDEPENDENT AUDITOR'S REPORT ON THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING



**KPMG Auditores S.L.**  
Edificio Torre Europa  
Paseo de la Castellana, 95  
28046 Madrid

### Independent Auditor's Report on the System of Internal Control over Financial Reporting

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Directors of  
Red Eléctrica Corporación, S.A.

Further to your request, and in accordance with our engagement letter dated 26 October 2015, we have examined the information concerning the System of Internal Control over Financial Reporting (*Sistema de Control Interno sobre la Información Financiera*, hereinafter "SCIIF") of Red Eléctrica Corporación, S.A. (the Parent) and subsidiaries (the REE consolidated Group or the Group) described in note F of the accompanying Annual Corporate Governance Report at 31 December 2015. This system is based on the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The Board of Directors of the Company and Senior Management of the Group are responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control over financial reporting, evaluating its effectiveness and developing improvements to that system, and defining the content of and preparing the accompanying information concerning SCIIF. Our responsibility is to express an opinion on the effectiveness of the Group's System of Internal Control over Financial Reporting based on our examination.

An entity's internal control over financial reporting is designed to provide reasonable assurance that its annual financial reporting complies with the applicable financial reporting framework. It includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and assets of the Group; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Group's consolidated annual accounts in accordance with the applicable financial reporting framework; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposal of the Group's assets that could have a material effect on the consolidated annual accounts. In this respect it should be borne in mind that, irrespective of the quality of the design and operation of the internal control system adopted in relation to annual financial reporting, the system may only provide reasonable, but not absolute assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

We conducted our examination in accordance with ISAE 3000 (International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) for the issue of reasonable assurance reports. This standard requires that we plan and perform our work to obtain reasonable assurance about whether the Group maintains, in all material respects, effective internal control over financial reporting. Our work included obtaining an understanding of the Group's System of Internal Control over Financial Reporting, testing and evaluating the design and operating effectiveness of that system, and performing such other procedures as were considered necessary in the circumstances. We consider that our examination provides a reasonable basis for our opinion.

KPMG Auditores S.L., a limited liability Spanish company and a member firm of the KPMG network of independent member firms affiliated with KPMG - International Cooperative ("KPMG International"), a Swiss entity. Reg. Mer Madrid T. 11.961, F. 90, Sec. 6, H. M-188.007, Inscríp. 9 N.I.F. B-76810162

2

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Due to the limitations inherent in any internal control system, there is always a possibility that SCIIF may not prevent or detect misstatements or irregularities that may arise as a result of errors of judgement, human error, fraud or misconduct. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting at 31 December 2015, in accordance with the criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Furthermore, the disclosures contained in the information concerning SCIIF included in note F of the Group's Annual Corporate Governance Report at 31 December 2015 have been prepared, in all material respects, in accordance with the requirements set forth in article 540 of the Revised Spanish Companies Act and in Spanish National Securities Market Commission (CNMV) Circular 7/2015 of 22 December 2015, with respect to the description of the System of Internal Control over Financial Reporting in Annual Corporate Governance Reports.

Our examination did not constitute an audit of accounts and is not subject to the legislation regulating the audit of accounts in Spain. As such, in this report we do not express an audit opinion on the accounts under the terms provided in the above-mentioned legislation. However, on 24 February 2016 we issued our unqualified audit report on the consolidated annual accounts of the Group for 2015, in accordance with the legislation regulating the audit of accounts in Spain.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Ana Fernández Poderós

24 February 2016



TITLE I  
LEGAL FRAMEWORK  
APPLICABLE  
TO RED ELÉCTRICA



TITLE II  
MAIN  
ASPECTS,  
PRINCIPLES  
AND PRACTICES  
OF RED ELÉCTRICA  
IN CORPORATE  
GOVERNANCE  
MATTERS



TITLE III  
THE YEAR  
2015 IN  
RED ELÉCTRICA



TITLE IV  
RED ELÉCTRICA'S  
FUTURE PLANS  
IN CORPORATE  
GOVERNANCE  
MATTERS

OFFICIAL ANNEX  
STANDARD  
FORM OF  
ANNEX I  
TO CNMV  
CIRCULAR  
7/2015 OF  
22 DECEMBER





**Published by**

RED ELÉCTRICA  
P.º del Conde de los Gaitanes, 177  
28109 Alcobendas [Madrid]

[www.ree.es](http://www.ree.es)

**Graphic design and layout**

dis\_ñ  
[estudio@dis-n.es](mailto:estudio@dis-n.es)

