

**OFFICIAL ANNEX:**  
STANDARD FORM  
ANNEX I, SPANISH STOCK  
EXCHANGE COMMISSION  
(CNMV)  
CIRCULAR 5/2013,  
OF 12 JUNE

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## ANNEX I

### ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

#### ISSUER'S IDENTITY DETAILS

FINANCIAL YEAR END

31/12/2014

TAX ID NUMBER (CIF) A-  
78003662

Corporate name:  
RED ELÉCTRICA CORPORACIÓN, S.A.

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

**ANNUAL CORPORATE GOVERNANCE REPORT  
FOR LISTED COMPANIES**

**A OWNERSHIP STRUCTURE**

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

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

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

Yes ☐

No ☒

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

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

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

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

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

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

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

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

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

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

Yes ☐

No ☒

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

Yes ☐

No ☒

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

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

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

Yes ☐

No ☒

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

At year-end:

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

(\*) Through:

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

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

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

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

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

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

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

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

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

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

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

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

Yes X

No

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

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

Yes ☐

No ☒

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

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

Yes ☐

No ☒

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

## **B GENERAL SHAREHOLDERS MEETING**

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

Yes ☐

No ☒

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

Yes ☐

No ☒

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

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

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



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

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

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

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

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

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

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

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

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

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

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

Yes ☐

No ☒

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

Yes X ☐

No ☐

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

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

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

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

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

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

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

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

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

## **C COMPANY MANAGEMENT STRUCTURE**

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

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

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

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

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

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

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

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

**EXECUTIVE DIRECTORS**

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

Total number of Executive Directors	1
% of the board	10.00%

**EXTERNAL PROPRIETARY DIRECTORS**

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

Total number of proprietary directors	3
% of the board	30.00%

**INDEPENDENT EXTERNAL DIRECTORS**

**Name or corporate name of director:**

CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE

**Profile:**

Born 20 May 1968.

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

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

Currently:

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

Formerly:

Head of the Cogeneration Department, Business Management, Enagás.  
Head of the International, Petrochemical and Marketing Departments of Repsol.  
Director of Services Development at Union Fenosa.  
Deputy Director of Oil Markets at Comisión Nacional de Energía (CNE).  
Institutional Relations and Communications Manager for BP Oil España.  
Member of the Spanish Delegation in the Emergency Questions Group and the Markets Group of the International Energy Agency (IEA).  
Representative on various international working groups on issues of energy regulation and security of supply (ARIAE and CEER). Professor at lectures and/or presentations on different Masters Courses (University of Barcelona, ICAI, Cesma, Spanish Energy Club)

**Name or corporate name of director:**

MARÍA ANGELES AMADOR MILLÁN

**Profile:**

Born 10 October, 1949.

Law Degree, Universidad Complutense de Madrid

Currently:

Practising lawyer.

Formerly:

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

**Name or corporate name of director:**

PALOMA SENDÍN DE CÁCERES

**Profile:**

Born 19 September, 1951.

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

Currently:

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

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

Formerly:

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

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

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

Director General of Mines.

President of the National Mining Safety Commission.

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

Managing Director of Promotion at ICEX.

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

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

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

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

Director, Hulleras del Norte (HUNOSA).

Director, Banco Exterior de España.

Director, Compañía Logística de Hidrocarburos (CLH).

Director, FOCOEX.

Director, Tabacos de Filipinas.

Director, SIRECOX.

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

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

Director, Tabatrade.

Director, Banco Exterior de España, UK branch.

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

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

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

ANTONIO GÓMEZ CIRIA

#### **Profile:**

Born 25 March 1957.

Degree in Economics and Business Studies, Universidad Complutense de Madrid

Degree in Mathematics, Universidad Complutense de Madrid.

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

Currently:

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

Formerly

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

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



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

Other:

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

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

SOCORRO FERNÁNDEZ LARREA

#### **Profile:**

Born 7 April 1965.

Civil Engineer, Universidad Politécnica de Madrid.

Currently:

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

Formerly

General Manager, COPISA Constructora Pirenaica S.A. (2007-2013).  
 Vice President, ANCI, Asociación de Constructores Independientes (2008-2013).  
 Member of the Governing Council, Association of Civil Engineers (2004-2012).  
 General Deputy Manager, COPISA, Constructora Pirenaica S.A. (2006-2007).  
 Regional Manager, Seop, Obras y Proyectos, S.A. (2005-2006).  
 National Representative, Ferrovial Conservación, S.A. (2002-2005).  
 Representative in Castilla-La Mancha, Ferrovial-Agroman, S.A. (1999-2002).  
 Representative in Castilla-La Mancha, Agroman Empresa Constructora, S.A. (1995-1999).  
 General Manager for Roads, Hydraulic Works and Transport, Regional Department of Public Works, Autonomous Community Board of Castilla-La Mancha (1993-1995).

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

Other:

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

Member of the Business Council for Latin America, member of the Management Board (chapter on the Iberian Peninsula).

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

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

Yes ☐

No ☒

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

#### **OTHER EXTERNAL DIRECTORS**

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

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

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

	Number of female directors				% of total directors of each type			
	2014	2013	2012	2011	2014	2013	2012	2011
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	1	0.00%	0.00%	0.00%	9.10%
<b>Independent</b>	5	4	4	2	50.00%	36.36%	36.36%	18.20%
<b>Other external</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	5	4	4	3	50.00%	36.36%	36.36%	27.30%

**C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.**

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

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

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

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

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

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

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

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

<b>Explanation of reasons</b>
Not applicable

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

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

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

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

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

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

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

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

Proprietary directors must disclose to the Board any conflict of interest between the Company and the shareholder that proposed their appointment where the conflict of interest relates to matters submitted to the Board and must refrain from participating in the adoption of the corresponding resolutions. Furthermore, Article 22.2

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

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

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

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

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

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

Yes ☐

No ☒

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

**Director's name**

ALFREDO PARRA GARCÍA-MOLINER

**Reasons for removal:**

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

**Director's name**

JUAN EMILIO IRANZO MARTÍN

**Reasons for removal:**

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

**Director's name**

MIGUEL BOYER SALVADOR

**Reasons for removal:**

Expiration of the term of his appointment.

**Director's name**

RUI MANUEL JANES CARTAXO

**Reasons for removal:**

Expiration of the term of his appointment.

**Director's name**

JOSÉ ÁNGEL PARTEARROYO MARTÍN

**Reasons for removal:**

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

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

**Name or corporate name of director**

JOSÉ FOLGADO BLANCO

**Brief description**

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



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

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

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

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

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

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

Yes ☒

No ☐

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

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

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

In turn, according to said article of the Regulations:

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

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

#### C.1.1

#### 4 Indicate the company's general policies and strategies that are reserved for approval by the Board of Directors in plenary session:

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

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

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

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

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

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

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

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

Yes

No X

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

1. Appointment and reappointment

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

appointment and assessment policy for candidates approved by the Board, and using external advisors as deemed appropriate, and as provided for in Article 20 of the Regulations.

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

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

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

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

## 2. Evaluation of Directors

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

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

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

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

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

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

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

### 3. Removal.

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

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

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

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

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

Yes ☒

No ☐

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

Description of amendments
<p>The final report on conclusions reached in the 2013 self-evaluation process was approved by the Board of Directors at its meeting of 29 July 2014.</p> <p>The result of PwC's self-assessment process, based on interviews held with the directors, has disclosed that efficiency and adequate operation of the Company's Management Bodies have been the most solid features of its 2013 performance. A very positive valuation was achieved on the operation of the various Management Bodies. All directors agreed that 2013 has led to consolidated cohesion both in the Board of Directors and other bodies.</p> <p>Furthermore, of interest is the positive valuation provided by most directors in relation to the formal features of these bodies, particularly as regards availability, rigorousness and preparation for meetings, and the quality of discussions.</p> <p>A very high score was also obtained in performance of the tasks assigned to the various Management Bodies. The directors have pointed out the connection amongst the members of the Management Bodies and the Senior Management. Furthermore, the 2013 self-evaluation also evidenced that the Company is way ahead in corporate governance matters, having implemented practice that exceed the minimum legal requirements existing at the self-evaluation date. This practice is related to:</p> <ul style="list-style-type: none"> <li>- Presentation of the Board of Directors' remuneration and the Annual Report on directors' remuneration to a binding vote, as separate points of the General Meeting Agenda.</li> <li>- Evaluation of the Management Bodies by an independent expert.</li> <li>- Creating the role of "Lead Independent Director".</li> <li>- The level of gender diversity within the Board of Directors.</li> <li>- The level of transparency of the Annual Corporate Governance Report.</li> </ul> <p>Furthermore, as a result of the 2013 self-evaluation process, progress has been identified, carried out within the Board over the last year, which will continue to be reflected upon in 2014 and successive years, in order for the Company to continue working towards good governance, as follows:</p> <ul style="list-style-type: none"> <li>- To continue examining alternative allowing a balance of power in the Board's composition, as a result of the posts of Chairman and Chief Executive being held by the same person, further to measures adopted in 2013 (appointment of Lead Independent Director, consolidated role of Board Committees, etc.).</li> <li>- To continue working on a refreshment of directors' knowledge, particularly in topics related to corporate governance, risk management, the energy sector and international markets, allowing them to reinforce the Board's capacities.</li> </ul>

- To continue strengthening the role of Lead Independent Director, given that companies are gradually acquiring more knowledge and experience about the relevance of this figure, and it is expected that matters related to corporate governance will continue to be a priority for companies over the next few years.

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

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

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

*a) When they reach 70 years of age.*

*b) When they are subject to any of the statutory grounds for incompatibility or prohibition.*

*c) When they are convicted of an offense or penalized in disciplinary proceedings for a serious or very serious infringement investigated by the supervisory authorities of the securities, energy and telecommunications markets.*

*d) When they are in serious breach of their obligations as Directors.*

*e) When they leave the executive posts with which their appointment as Director was associated.*

*f) When their continued presence on the Board jeopardizes the Company's interests, in particular, in relation to Section 38.4 of these Regulations, and the Board deems this to be the case with the affirmative vote of two-thirds of its members.*

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

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

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

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

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

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

Yes ☒

No ☐

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



Directors.

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

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

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

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

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

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

**Indicate, and if necessary, explain whether rules have been established that enable any of the independent directors to convene board meetings or include new items on the agenda, to**

**coordinate and voice the concerns of external directors and oversee the evaluation by the Board of Directors**

Yes X

No ☐ \*\*

Explanation of rules
<p>New Article 9 bis of the Regulations of the Board of Directors introduced in March 2013 include among the responsibilities of the lead independent director coordinating and proposing to the Chairman and of the Board of Directors items to include on the agenda for the meeting and to call both ordinary and extraordinary meetings of the Board of Directors, for duly justified reasons that must be included along with the call, when the request has not been made by the Chairman of the Board of Directors.</p> <p>Pursuant to Article 17 of the Regulations of the Board of Directors, the Board will meet whenever requested by the lead independent director or three directors, in which case they must state in the request the matters to be discussed at the meeting, in accordance with the By-laws and the Regulations.</p> <p>Additionally, the directors who make up at least one-third of the Board members and, in the preceding case, the three requesting directors or the lead independent director, may convene the Board directly, stating the agenda of the meeting to be held in the location of the registered address if, after the request to the Chairman, the latter, without a justified reason, has not convened the meeting within one month.</p> <p>Furthermore, pursuant to Article 25 bis of the Corporate By-laws and the aforementioned Article 9 bis of the Regulations of the Board of Directors, the lead independent director has the essential responsibility, which must be taken into account for carrying out the other functions described in the Regulations, of organizing the common positions of the independent directors and being the communicator or spokesperson of those common positions with respect to the Chairman of the Board of Directors, the Board itself and the Board's Committees.</p> <p>With respect to the independent directors, pursuant to article 9 bis of the Regulations of the Board of Directors, the lead independent director may convene and chair, at his own initiative or at the initiative of another independent director, at least once a year, formal or informal meetings of independent directors.</p> <p>Moreover, management of the assessment process is expressly attributed to the Corporate Responsibility and Governance Committee, in coordination with the lead independent director (Articles 9 bis and 16 of the Regulations of the Board of Directors).</p> <p>The Board meeting held on 13 March 2013 resolved to create the post of Lead Independent Director, as proposed by the Corporate Responsibility and Governance Committee. The General</p>

Shareholders Meeting of 18 April 2013 proceeded to amend the Corporate By-laws in this regard. The Board Meeting held on 28 May 2013 appointed Carmen Gómez de Barreda Tous de Monsalve as Lead Independent Director, for a period of three years.

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

Yes ☒ X

No ☐

If applicable, describe the differences.

**Description of differences**

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

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

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

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

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

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

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

only allows non-executive directors to empower another non-executive director).

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

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

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

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

Yes ☒ No ☐

Age limit for Chairman:

Age limit for chief executive

Age limit for director 70

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

Yes ☐ No ☒

**C.1.28 Indicate whether the By-laws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether only one director of the same category may be appointed as a proxy. If so, give brief details.**

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

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

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

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

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

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

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

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

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

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

Yes ☐

No ☒

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

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

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

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

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

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

Yes ☐

No ☒

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

Appointment and removal procedure
Pursuant to Article 10.4 of the Regulations of the Board of Directors, the Corporate Responsibility and Governance Committee will report on proposals for the appointment and removal of the Board Secretary, prior to their submission to the Board.
The secretary of the Board of Directors, Rafael García de Diego Barber, an attorney and member of the Illustrious College of

Attorneys of Madrid, is not a Company Director and has served as Secretary since 4 May 1995. The Committee could not report on his appointment as it did not exist at that time.

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

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

Yes X

No ☐

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

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

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

In 2012, at its Ordinary Shareholders Meeting of 19 April 2012, the Company adapted its Corporate By-laws to bring them into line with the aforementioned Act 12/2010, which aims to reinforce the

competencies of the Auditing Committee to verify the independence of the external auditor. This modification is set down in Article 14.3 of the Regulations of the Board of Directors, which was approved by the Board of Directors at its meeting on 13 March 2013.

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

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

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

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

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

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



Without prejudice to the obligation set out in Article 45 for the Auditing Committee to report on services provided to the Company and the Group by the external auditors other than those related to the audit (and which are regularly reported to the markets through section C.1.37 of this report), the Company's approach is not to contract any such services from the auditor from the moment that they are appointed as such by the General Shareholders Meeting, unless such contracting is justified by exceptional circumstances, in which case it will be duly explained in the Company's annual disclosures.

The Company frequently makes all manner of presentations to financial analysts and investment banks to report on the key economic and financial highlights of the Group and its business performance.

These presentations are regularly attended by the most prominent industry professionals and experts. After these presentations, all participants are offered the opportunity to be included on a list of entities that periodically receive relevant Company information of interest to them.

All presentations to analysts are sent to the Spanish CNMV beforehand so that they may be consulted by the markets on its website. The presentations are also posted immediately on the 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 ☒

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 ☒

No ☐

	Company	Group	Total
Amount of non-auditing work (in thousands euros)	0	57	57
Amount of non-auditing work as a % of the total amount billed by the auditing firm	0.00%	21.00%	21.00%

**C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Auditing Committee to explain the content and scope of those reservations or qualifications.**

Yes ☐

No ☒

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

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

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

Yes ☒

No ☐

Procedures
<p>There is a specific procedure in place at the Company to allow Directors to seek external advice.</p> <p>In order to receive assistance in exercising their functions, Article 26 of the Regulations of the Board of Directors establishes that External Directors may request that the Board of Directors engage legal, accounting, financial or other expert advisers, at the expense of the Company.</p> <p>The engagement must refer to specific problems of a certain scale and complexity arising in the discharge of their office.</p> <p>The engagement request must be addressed to the Chairman. The request may be rejected by the Board of Directors if it transpires or</p>

can be inferred that:

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

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

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

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

Yes ☒

No ☐

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</p>

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 *in situ*.

Article 25.3 of the Regulations of the Board of Directors provides that the Chairman of the Company may restrict access to certain information on an exceptional and temporary basis, informing the Board of Directors of this decision at its next meeting.

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

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

Yes ☒

No ☐

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

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

Yes ☐

No ☒

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

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

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

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

Number of beneficiaries	3
Type of beneficiary	Description of the resolution
CEO and top executives	The contract of the current Executive Director was proposed by the Corporate Responsibility and Governance Committee and approved by the Company's Board of Directors. In accordance with common market practices, this contract includes indemnification equal to one year's compensation in the event of termination of the mercantile relationship through dismissal or change of control.
Top executives	There are safeguard or golden parachute clauses for members of the Company's current senior management. These clauses are in line with standard market practices and cover the

	<p>termination of the employment relationship, providing for indemnification of one year's salary, unless the applicable legislation provides for a higher amount. The contracts containing these clauses were approved by the Governance and Corporate Responsibility Committee and they were duly notified to the Board of Directors of the parent company.</p>
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Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

	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:

#### GOVERNANCE AND CORPORATE RESPONSIBILITY COMMITTEE

Name	Position	Type
MS. CARMEN GÓMEZ DE BARREDA TOUS DE MONSALVE-	CHAIRWOMAN	Independent
MR. FRANCISCO RUIZ JIMÉNEZ	MEMBER	Proprietary
MS. MARÍA JOSÉ GARCÍA BEATO	MEMBER	Independent
MS. SOCORRO FERNÁNDEZ LARREA	MEMBER	Independent

% of executive directors	0.00%
% of proprietary directors	25.00%
% of independent directors	75.00%
% of other external directors	0.00%

#### AUDITING COMMITTEE

Name	Position	Type
PALOMA SENDÍN DE CÁCERES	Chairwoman	Independent
MARIA ÁNGELES AMADOR MILLÁN	Member	Independent
FERNANDO FERNÁNDEZ MÉNDEZ DE ANDÉS	Member	Proprietary
ANTONIO GÓMEZ CIRIA	Member	Independent

% of executive directors	0.00%
% of proprietary directors	25.00%
% of independent directors	75.00%
% of other external directors	0.00%

**C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:**

	Number of female directors							
	2014		2013		2012		2011	
	Number	%	Number	%	Number	%	Number	%
GOVERNANCE AND CORPORATE RESPONSIBILITY COMMITTEE	3	75.00%	1	33.33%	1	33.33%	1	25.00%
AUDITING COMMITTEE	2	50.00%	2	66.66%	2	66.66%	2	66.66%

**C.2.3 Indicate whether the Auditing Committee is responsible for the following:**

	Yes	No
Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles	X	
Reviewing internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed	X	
Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verifying that senior management are acting on the findings and recommendations of its reports	X	
Establishing and supervising a mechanism whereby staff can	X	

	Yes	No
report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.		
Making recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of their engagement	X	
Receiving regular information from the external auditor on the progress and findings of the audit programme, and checking that senior management are acting on its recommendations	X	
Monitoring the independence of the external auditor	X	

#### **C.2.4 Describe the organisational and operational rules and the responsibilities attributed to each of the board committees.**

The Company has two Board Committees (Auditing Committee and Governance and Corporate Responsibility Committee). Appointment and removal of its members is entrusted to the Board of Directors further to a proposal from the Board chairman. Committee member hold office for a three-year term and may be re-elected, and abandon office if they no longer hold director status or if this is agreed by the Board of Directors, subject to a prior opinion from the Governance and Corporate Responsibility Committee. The chairperson or each Committee is appointed by the Committee itself for a three-year term and may be re-elected after one year has transpired since he/she abandoned the post. Committees will issue minutes of all resolutions adopted at their meetings, in the terms established in the Regulations of the Board of Directors, which are made immediately available to all Board members through the Director's Portal. Furthermore, at the first Board meeting held, information is provided on the activity carried out by the Committees. On 23 December 2014, the Company's Board of Directors has decided to increase the number of Committee members, from three (3) to four (4). This counterweight measure has reinforced the presence of independent directors, as both Committees have included an independent director.

#### **AUDITING COMMITTEE**

The Committee directors are specially qualified to hold office, and offer long-term professional experience, further to high-level posts held outside Red Eléctrica, in matters related to those entrusted to the Committee. In relation to their professional profiles, of interest is their knowledge and experience in accounting or auditing matters, or both, taken into account for their designation, as provided in Article 13.1 of the Regulations of the Board of Directors. The Committee meetings have been regularly attended by Mr. Luis Villafruela Arranz, Corporate



Manager of Regulation and Global Risk control, and Mr. Juan Lasala Bernad, Corporate Economic-Financial Manager, in order to respectively report on various matters related to the Committee's competences. In 2014, as regards a review of the Annual Accounts of the Company and its Group for 2013, the external auditor of the Company and its Group has explained the auditing process conducted and the final auditing opinion. The Committee agreed to favourably enforce the 2013 Annual Accounts. Tasks: The tasks assigned to the Auditing Committee are established in Article 23 of the Corporate By-laws and Article 14 of the Regulations of the Board of Directors, which are published on the corporate website ([www.ree.es](http://www.ree.es)), under Corporate Governance, to which we refer. Amongst others, it will support the Board of Directors when surveying the process to draw up economic-financial information, internal control of the Company, independence of the external auditor, fulfilment of legal provisions and internal regulations, Company shareholders and any other competences expressly attributed by the Board of Directors. The latest amendment of the Board Regulations, approved in March 2013, gathered the provisions of the 18<sup>th</sup> additional provision of the Securities Market Act, adapted to Article 23.1 of the Corporate By-laws and best international practice in corporate governance matters, and also included certain tasks that were already performed *de facto* by the Committee. The recent reform of the Capital Companies Act to improve corporate governance has introduced minimum competences for the Auditing Committee, which is why the Corporate By-laws and Board Regulations will be soon reviewed in order to accordingly adjust to the new Act.

#### GOVERNANCE AND CORPORATE RESPONSIBILITY COMMITTEE

All Directors belonging to the Committee have proven experience to perform the duties entrusted to the Committee as a result of their long-term experience and knowledge, further to Article 12 of the Board Regulations. Tasks: The basic tasks of the Governance and Corporate Responsibility Committee, pursuant to Article 24 of the Corporate By-laws, are as follows: a) To inform and propose, in the case of independent directors, in advance, all proposals that the Board of Directors presents to the General Meeting to appoint or remove directors, including co-optation. To propose to the Board the appointment of a lead independent director. b) To propose to the Board of Directors a remuneration policy for directors and senior executives, and to ensure its compliance. c) To undertake duties to inform, supervise and propose in corporate governance matters, as determined by the Board of Directors. The foregoing basic responsibilities are described in more detail in Article 16 of the Regulations of the Board of Directors, which is published on the corporate website ([www.ree.es](http://www.ree.es)), under Corporate Governance, to which we refer. In 2013, as a result of amending the Board Regulations, the duties of this Committee were adjusted to best international practice in corporate governance, and some legal provisions were

included, such as a reference to the Annual Report on Directors Remuneration regulated in Article 61 ter of the LMV, gathering relevant duties that the Committee had been performing but were not included in the Regulations.

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

In 2013, the Board of Directors of Red Eléctrica approved modifications to the Regulations of the Board of Directors. Among other items, these included modifications to the regulations of the Auditing Committee and the Corporate Responsibility and Governance Committee to incorporate international recommendations and best practices relating to Corporate Governance, so as to improve their organisation and performance.

There are no specific internal regulations for the Committees, the preference having been for comprehensive regulation in the Regulations of the Board of Directors.

The Regulations may be consulted on the Company website [www.ree.es](http://www.ree.es), in the Corporate Governance section, without prejudice to the fact they are registered at the CNMV and the Madrid Mercantile Registry and are therefore generally available to investors.

Both Board Committees prepare an annual report on their activities; these are included in full in the Annual Corporate Governance Report and are available on the Company's website.

**C.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of directors:**

Yes ☐

No ☒

<p><b>If the answer is no, explain the composition of the Executive or Delegate Committee</b></p>
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<p>Not applicable as there is no Executive Committee.</p>
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## **D RELATED-PARTY AND INTRAGROUP TRANSACTIONS**

**D.1 Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions.**

<p>Competent body to approve related-party transactions</p>
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The Board of Directors
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<b>Procedure for approval of related-party transactions</b>
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<p>Pursuant to Articles 5.5 and 14.6 of the Regulations of the Board of Directors, in May 2010 the Board of Directors, at the proposal of the 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.</p>
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<p>In accordance with the provisions of Article 39 of the Regulations of the Board of Directors, the Board of Directors formally reserves the right to be informed of any material transaction of the Company with a significant shareholder unless, due to its nature and terms, it falls under the jurisdiction of the General Shareholders Meeting.</p>
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Explain if the authority to approve related-party transactions has been delegated to another body or person.

No delegation has been made. As previously mentioned, pursuant to the Regulations of the Board of Directors, the Board of Directors has approved a policy controlling related-party transactions. In implementation of this, the Auditing Committee reports periodically to the Board on such transactions. Where necessary as a result of their significance or value, such related-party transactions are put to the Board for approval.

- D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:**
- D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:**
- D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities:**

**In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:**

- D.5 Indicate the amount from related-party transactions.**

4,653 (Thousand Euros)

**D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.**

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

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

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

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

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

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

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

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

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

It should be noted that for the above purposes, in accordance with Article 11 of the Internal Code of Conduct on the Securities Market, the Oversight Body is the Corporate Economic and Financial Department, which will act in collaboration with the Secretary of the Board of Directors as regards any legal issues resulting from the application or interpretation of the Code. The Oversight Body must periodically report to the Auditing Committee on the degree of compliance with the Code and on any incidents that may occur.

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

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

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

In 2015, the corporate rules will also be accordingly adjusted to the LSC reform approved in December 2014.

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

Yes ☐

No ☒

Identify the listed subsidiaries in Spain:

**Listed subsidiaries**

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

<b>Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies</b>
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Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

<b>Mechanisms to resolve any potential conflicts of interest</b>
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## E RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 Describe the Risk Management System in place at the company.

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

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

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

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

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

- Integrated Risk Management Policy.
- General Procedure of Integrated Risk Control and Management.

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

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

The Integrated Risk Management System includes any relevant task risks for the Company. Nevertheless and in order to comply with the provisions of Act 31/2014, amending the Capital Companies Act to improve corporate governance, complementary actions are being implemented in the system with respect to the tax risks.

The update of the Integrated Risk Management Policy, approved by the Board of Directors in November 2014, intends to keep the Policy constantly

updated in relation to the Group's Strategic Plan in force at all times. This Policy is available on the corporate website in the Corporate Governance section.

**E.2 Identify the bodies responsible for preparing and implementing the risk management system.**

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

The Policy and Procedure define the various responsibilities of each of the units and governing bodies of Red Eléctrica Group, and also the information flows and activities to be carried out by the different bodies.

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

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

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

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

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

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

- Material risks map
- Material risks files
- High-level risks monitoring report



- Risk reports by general management and corporate governance departments

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

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

### **E.3 Indicate the main risks which may prevent the company from achieving its targets.**

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

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

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

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

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

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

As a consequence of risk analysis undertaken by Red Eléctrica Group in the latest Risks Map produced, 148 risks have been identified, the distribution of which by types is:

1. High:

- 1 regulatory risk
- 4 operational risks
- 0 business risks
- 0 market risks
- 0 counterparty risk

2. Medium:

- 6 regulatory risks
- 44 operational risks
- 2 business risks
- 0 market risks
- 1 counterparty risk

3. Low

- 7 regulatory risks
- 72 operational risks
- 3 business risks
- 4 market risks
- 4 counterparty risk

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

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

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

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

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

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

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

- Very high.
- High.
- Medium.

- Low.

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

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

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

The probability of occurrence and the level of impact of each risk are used to position each risk in a probability/impact matrix prepared by the Company, automatically determining the level of risk.

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

#### **E.5 Identify any risks which have occurred during the year.**

First risk arising in the year and impact:

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

During 2014 certain events have occurred, entailing minor cuts in power supply.

- Underlying circumstances:

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

- Operation of control systems:

All control systems have worked adequately, as evidenced by the level of availability in the transmission network, registering 98.20% in 2014 (provisional figure) and 98.20% in 2013 (final figure).

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

**E.6 Explain the response and monitoring plans for the main risks the company is exposed to.**

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

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

- Risk supervision and action plans.

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

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

- Contingency Plans

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

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

This procedure:

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

each type of event
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## **F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)**

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

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

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

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

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

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

- The Corporate Economic-Financial Management, as the executor of the guidelines issued by the Board of Directors, has entrusted the Economic Management with responsibility for designing, implementing, operating and maintaining the consistency of the ICFR. As indicated in the Internal Control Manual, its responsibilities include "establishing an adequate control structure to ensure an effective Internal Control System".

- The Auditing Committee is in charge of supervising ICFR. According to Article 14 of the Regulations of the Board of Directors, the Auditing Committee will "supervise the reporting process and integrity of the Company's financial information, and of the Group, ensuring that all regulatory requirements are met, an adequate delimitation of the consolidation perimeter and an adequate application of any relevant accounting standards and criteria", and

“will supervise internal auditing services, to ensure that all reporting and internal control systems adequately operate”. To carry out these tasks, the Auditing Committee is supported by the Internal Auditing and Risk Control Department.

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

**F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:**

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

REE's Corporate Affairs and Institutional Relations Division, through its Human Resources Department, as the executor of the guidelines issued by the Board of Directors, is responsible for defining the basic structure of the organization, defining the different levels of authority and the consequent levels of responsibility. All of this aims to maintain a design an organisational structure that is implemented, reviewed and updated constantly.

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

- Consolidated Version of the Corporate By-laws.
- Internal Code of Conduct on the Stock Market.
- Corporate Responsibility Manual.
- Code of Ethics and corporate values.

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

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

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

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

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

- Code of Ethics

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

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

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

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

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

- Internal Code of Conduct on the Stock Exchange:

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

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

- Confidential and Relevant Information
- Conflicts of Interest
- Related Parties
- Rules on free pricing
- Treasury stock

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



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

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

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

- Corporate Responsibility Policy

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

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

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

Claims should be submitted, preferably, by electronic means. On the website of each company, there will be an easily accessible and visible channel through which claims can easily be sent to the Ethics Manager. The system will guarantee confidentiality and protect against reprisals in all its stages. The Ethics Manager will undertake to provide total confidentiality in carrying out his/her functions; this commitment will be extended to those who provide him/her internal support.

Furthermore, there is another channel to report infringements, complaints, consultations and ethical suggestions: the DÍGAME Service. This enables applications

to be received from external stakeholders without access to the foregoing channels.

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

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

## **F.2 Risk assessment in financial reporting**

Report at least:

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

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

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

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

- **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

The ICFR matrix intends to identify any accounts and breakdowns with a significant associated risks and with a material potential impact on financial information. In this process to identify significant accounts and breakdowns, quantitative and qualitative factors have been taken into

account (complexity of operations, risk of fraud, level of process standardization and others).

This ICFR matrix is based on the current financial position and global consolidated P&L statement included in the Audited Consolidated Annual Accounts (AA).

For significant accounts and breakdowns, key processes and subprocesses have been defined that are associated thereto, identifying any risks that may generate errors and/or fraud in financial information, covering all financial information objectives (existence and occurrence; integrity, valuation; presentation, breakdown and comparability; and rights and obligations).

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

The Auditing Committee, as part of its duties, supervises the adequate definition of a consolidation perimeter. To do this, the Department of Accounting Information and Administration is in charge of identifying and updating the consolidation perimeter, as described in the AA Closing Procedure and subsequent reporting to the Auditing Committee.

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

The Group's Integrated Risk Management Policy was approved by the Board of Directors on 24 July 2008. It aims to establish principles and guidelines to ensure that any relevant risks that may affect the Group's objectives and activities are identified, analysed, evaluated, managed and controlled systematically, with standard criteria and within the risk levels determined.

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

The Board of Directors is, via the Auditing Committee, the body that ultimately has the duty of "periodically supervising the internal control and risk management systems, so that the principal risks are adequately identified, managed and disclosed", pursuant to the Board Regulations.

### **F.3 Control activities**

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

**F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.**

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

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

The procedure to review and authorise financial information is formalized monthly through internal audits by the Corporate Economic-Financial Management and ends when it is presented to the Auditing Committee and subsequently to the Board of Directors.

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

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

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

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

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

Each year, any key processes/subprocesses identified as material are documented. These processes/subprocesses cover the various

types of transactions that may have a material effect on the financial statements, as well as any that may be affected by relevant judgments, estimates, valuations and projections.

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

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

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

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

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

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

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

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

The Group has implemented a conduct Protocol on the use of IT and communications systems (its last update was in May 2014), for which the Corporate Systems and IT Management is responsible.

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

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

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

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

- Each year, a risk analysis is conducted on the security of information in Corporate Information Systems (CIS), to obtain a list of the most relevant risks for appraisal, establishing any measures and steps to reduce or maintain the risk level of those deemed most relevant.
- Each year, security regulations are reviewed or whenever there is a significant change, in order to ensure their suitability, adequacy and efficiency.
- An inventory is kept of all assets (equipment, software, applications and data) included in the CIS.

Each asset will be assigned an organizational unit in charge.

- General measures will be established for data protection depending on its classification category. In turn, the management unit may define specific measures to complement any general measures.
- Data security information is drafted and published, addressed to employees and external collaborators.
- The managers of all Units will check that any new employees and external collaborators are aware of the data security documentation published. Furthermore, they will ensure that these fulfil the specifications of the documentation.
- The Human Resources Management will inform the Systems and IT Department of all movements of internal and external staff (de-registrations, registrations, transfers and relocations) in order to apply the necessary changes in data system access rights.
- All employees and collaborators will return the computer equipment in their hands at the end of their job, contract or relationship with the company and may not withhold any information.
- A risk evaluation will be conducted to determine any security implications derived from the participation of external collaborators in business processes, defining and implementing the necessary checks.
- The Human Resources Management will define and implement physical security measures to protect the facilities where data systems are located, against damage from fire, flooding and other natural or human-caused disasters. Furthermore, it will establish adequate entry checks at restricted access areas to ensure that only authorised staff is allowed to enter.

- The Systems and IT Department will ensure that all data systems under its management are adequately and safely operating, by drawing up and implementing appropriate operating procedures. This procedure will contemplate task segregation to reduce the risk of negligence or deliberate misuse of the system. If computer services are provided by third parties, the Systems and IT Department will check that all security control measures and service levels agreed have been implemented and maintained by third parties.
- The Systems and IT Department is in charge of defining rules and procedures to manage user access (authentication and authorisation) to data systems.
- Formal communication procedures will be established to ensure that information security events and weaknesses associated to data systems are reported in such a way as to enable adequate corrective action.
- A Computer Contingency Plan (CCP) is drawn up for data systems so that, in the event of disaster destroying the systems or preventing access, service is able to be reinstated in a period of time in line with its criticality.

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

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

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

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

**F.4 Information and communication**

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

**F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department)**



**and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.**

The Economic Information and Administration Department, as part of the Economic Management, is responsible for defining and resolving all issues related to the interpretation of accounting policies, providing coverage for all areas of the Company.

The Group has developed an "Accounting Policies Manual and Group Accounting Plan" setting out guidelines and activities relating to accounting records. This is communicated to all applicable employees (all actions must be taken in accordance with the "Accounting Policies Manual and Group Accounting Plan").

This Department is located within the Corporate Economic and Financial Department, which in turn reports to the Chairman of the Board of Directors himself. The accounting policies are established on the basis of the legal framework applicable to the Company, as set out in the Commercial Code, the National Chart of Accounts and other commercial legislation, and in the International Financial Reporting Standards adopted by the European Union.

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

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

In addition, there is a specific system for the entire process of preparing the Annual Accounts, where the Auditing Committee, which reports functionally to the Board of Directors, takes on particular significance. The Auditing Committee is tasked with ensuring maximum confidence in the entire process of drawing up the information (both with respect to the supervisory tasks of the Internal Audit function and the external auditor), as a step prior to preparation by the Board of Directors.

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

notifications to supervisory and/or regulatory bodies, and to press releases.

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

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

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

Guaranteeing an up-to-date model that is in line with the reality of the business and with best practices is a critical aspect in achieving an efficient ICFR model that ensures that the process for drawing up financial information is reliable and transparent.

The Board of Directors is ultimately responsible for the existence and adequate and effective maintenance of ICFR, the supervision of which is delegated to the Auditing Committee. The senior management is in charge of design and implementation.

This constant analysis and monitoring of the ICFR, detecting any faults and making the appropriate changes and improvements, is performed through the following:

- Effective supervision by the Auditing Committee, in relation to ultimate control over the ICFR model, delegated by the Board of Directors, and carried out through the Internal Auditing function.
- Through the function delegated to it by the Auditing Committee, Internal Audit plays a key role in the ICFR. In this regard, it carries out regular checks of the cycles in the ICFR system, in accordance with the Annual Audit Plan.
- Lastly, where proposed actions are finalized and subsequently included, a design and final validation process is set in motion, so that they may ultimately be included in the ICFR model. Internal Audit plays a key role throughout this supervision process. Its main objectives are:
  - To ensure and improve compliance with the internal controls established at the Company.
  - To carry out regular checks, on selective basis, to ensure that documents are kept up-to-date, in accordance with the provisions of the Annual Audit Plan.

- To check that actions to correct the ICFR have been properly implemented based on the provisions of the Annual Audit Plan.

To ensure that these objectives are achieved, an "Annual Internal Audit Plan" is prepared, which is supervised and approved by the Auditing Committee.

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

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

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

## **F.6 Other relevant information**

### **F.7 External auditor review**

State whether:

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

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

## **G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

Indicate the degree of the company's compliance with Corporate Governance recommendations.

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

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

See sections: A.10, B.1, B.2, C.1.23 and C.1.24.

Compliant ☒ Explain ☐

- 2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:**

- a) **The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;**  
b) **The mechanisms in place to resolve possible conflicts of interest.**

See sections: D.4 and D.7

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

- 3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders Meeting for approval or ratification. In particular:**

- a) **The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;**  
b) **Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;**  
c) **Operations that effectively add up to the company's liquidation.**

See section: B.6

Compliant ☒ Partially compliant ☐ Explain ☐

- 4. Detailed proposals of the resolutions to be adopted at the General Shareholders Meeting, including the information stated in**

**Recommendation 27, should be made available at the same time as the publication of the Meeting notice.**

Compliant X      Explain ☐

- 5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:**

- a) The appointment or ratification of directors, with separate voting on each candidate;**
- b) Amendments to the By-laws, with votes taken on all articles or groups of articles that are materially different.**

Compliant X      Partially compliant ☐      Explain ☐

- 6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.**

Compliant X      Explain ☐

- 7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time.**

**It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.**

Compliant X      Partially compliant ☐      Explain ☐

- 8. The board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:**

- a) The company's general policies and strategies, and in particular:**
  - i) The strategic or business plans, management targets and annual budgets;**
  - ii) Investment and financing policy;**
  - iii) Design of the structure of the corporate group;**
  - iv) Corporate governance policy;**
  - v) Corporate social responsibility policy;**
  - vi) Remuneration and evaluation of senior officers;**

vii) Risk control and management, and the periodic monitoring of internal information and control systems.

viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See sections: C.1.14, C.1.16 and E.2

**b) The following decisions:**

i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

ii) Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.

iii) The financial information that all listed companies must periodically disclose.

iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders Meeting;

v) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

**c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").**

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;

2. They go through at market prices, generally set by the person supplying the goods or services;

3. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Auditing Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6

Compliant X   Partially compliant ☐   Explain ☐

- 9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.**

See section:   C.1.2

Compliant X   Explain ☐

- 10. External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

See sections:   A.3 and C.1.3.

Compliant X   Partially compliant ☐   Explain ☐

- 11. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.**

**This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:**

- 1. In large capitalisation companies where few or no equity stakes attain the legal threshold for significant shareholdings, but there are shareholders with considerable sums actually invested.**
- 2. In companies with a plurality of shareholders represented on the board but not otherwise related.**

See sections:   A.2, A.3 and C.1.3

Compliant X   Explain ☐

- 12. The number of independent directors should represent at least one third of all board members.**

See section:   C.1.3

Compliant X   Explain ☐

- 13. The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to**

**or greater than that of others applying successfully for a proprietary directorship.**

See sections: C.1.3 and C.1.8

Compliant X Partially compliant ☐ Explain ☐

**14. When women directors are few or non-existent, the Nomination Committee should take steps to ensure that:**

- a) The process of filling board vacancies has no implicit bias against women candidates;**
- b) The company makes a conscious effort to include women with the target profile among the candidates for board places.**

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Compliant X Partially compliant ☐ Explain ☐ Not applicable ☐

**15. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committee.**

See sections: C.1.19 and C.141

Compliant X Partially compliant ☐ Explain ☐

**16. When a company's Chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the Chairman.**

See section: C.1.22

Compliant X Partially compliant ☐ Explain ☐ Not applicable ☐

**17. The Secretary should take care to ensure that the board's actions:**

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;**
- b) Comply with the company By-laws and the regulations of the General Shareholders Meeting, the Board of Directors and others;**
- c) Are informed by those good governance recommendations of the Unified Code that the company has accepted.**

**In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed**



**by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board regulations.**

See section: C.1.34

Compliant X   Partially compliant ☐   Explain ☐

**18. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.**

See section: C.1.29

Compliant X   Partially compliant ☐   Explain ☐

**19. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.**

See sections: C.1.28, C.1.29 and C.1.30

Compliant X   Partially compliant ☐   Explain ☐

**20. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.**

Compliant X   Partially compliant ☐   Explain ☐   Not applicable ☐

**21. The board in full should evaluate the following points on a yearly basis:**

- a) The quality and efficiency of the board's operation;**
- b) Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;**
- c) The performance of its committees on the basis of the reports furnished by the same.**

See sections: C.1.19 and C.1.20

Compliant X   Partially compliant ☐   Explain ☐

**22. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the By-laws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.**

See section: C.1.41

Compliant X   Explain ☐

**23. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide**

**suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.**

See section: C.1.40

Compliant X Explain ☐

**24. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.**

Compliant X Partially compliant ☐ Explain ☐

**25. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:**

- a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;**
- b) Companies should lay down rules about the number of directorships their board members can hold.**

See sections: C.1.12, C.1.13 and C.1.17

Compliant X Partially compliant ☐ Explain ☐

**26. The proposal for the appointment or renewal of directors which the board submits to the General Shareholders Meeting, as well as provisional appointments by the method of co-optation, should be approved by the board:**

- a) On the proposal of the Nomination Committee, in the case of independent directors.**
- b) Subject to a report from the Nomination Committee in all other cases.**

See section: C.1.3

Compliant X Partially compliant ☐ Explain ☐

**27. Companies should post the following Director particulars on their websites, and keep them permanently updated:**

- a) Professional experience and background;**
- b) Directorships held in other companies, listed or otherwise;**
- c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with;**
- d) The date of their first and subsequent appointments as a company director, and;**
- e) Shares held in the company and any options on the same.**

Compliant X   Partially compliant ☐   Explain ☐

- 28. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.**

See sections:            A.2, A.3 and C.1.2

Compliant X   Partially compliant ☐   Explain ☐

- 29. The Board of Directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the By-laws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of the duties inherent in his or her post or comes under one of the disqualifying grounds of its independent capacity enumerated in Ministerial Order ECC/461/2013.**

**The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 11.**

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Compliant X   Explain ☐

- 30. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.**

**The moment a director is indicted or tried for any of the crimes stated in article 213 of the Capital Companies Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.**

See sections:            C.1.42 and C.1.43

Compliant X   Partially compliant ☐   Explain ☐

- 31. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.**

**When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the**

**pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.**

**The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.**

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

- 32. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.**

See section: C.1.9

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

- 33. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.**

**The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.**

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

- 34. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.**

Compliant ☒ Explain ☐ Not applicable ☐

- 35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.**

Compliant ☒ Explain ☐ Not applicable ☐

- 36. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.**

Compliant ☒ Explain ☐ Not applicable ☐

- 37. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.**

See sections: C.2.1 and C.2.6

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

**38. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.**

Compliant ☐ Explain ☐ Not applicable X

**39. In addition to the Auditing Committee mandatory under the Securities Market Act, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.**

**The rules governing the make-up and operation of the Auditing Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:**

- a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;**
- b) These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, at the Committees' invitation.**
- c) Committees should be chaired by an independent director.**
- d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.**
- e) Meeting proceedings should be minuted and a copy sent to all board members.**

See sections: C.2.1 and C.2.4

Compliant X Partially compliant ☐ Explain ☐

**40. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Auditing Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.**

See sections: C.2.3 and C.2.4

Compliant X Explain ☐

**41. Auditing Committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management.**

Compliant X Explain ☐

**42. Listed companies should have an internal audit function, under the supervision of the Auditing Committee, to ensure the proper operation of internal reporting and control systems.**

See section: C.2.3

Compliant ☒ Explain ☐

**43. The head of internal audit should present an annual work programme to the Auditing Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.**

Compliant ☒ Partially compliant ☐ Explain ☐

**44. Control and risk management policy should specify at least:**

- a) The different types of risk (operational, technological, financial, legal, reputational...) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;**
- b) The determination of the risk level the company sees as acceptable;**
- c) Measures in place to mitigate the impact of risk events should they occur;**
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

See section: E

Compliant ☒ Partially compliant ☐ Explain ☐

**45. The Auditing Committee's role should be:**

**1. With respect to internal control and reporting systems:**

- a) The main risks identified as a result of the review of the efficacy of the company's internal control and internal audit are properly managed and disclosed.**
- b) Monitor the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the budget of this service; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.**
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.**

**2. With respect of the external auditor:**

- a) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.**

**b) Monitor the independence of the external auditor, to which end:**

**i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**

**iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.**

See sections: C.1.36, C.2.3, C.2.4 and E.2

Compliant X Partially compliant ☐ Explain ☐

**46. The Auditing Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.**

Compliant X Explain ☐

**47. The Auditing Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:**

**a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**

**b) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**

**c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.**

See sections: C.2.3 and C.2.4

Compliant X Partially compliant ☐ Explain ☐

**48. The Board of Directors should seek to present the annual accounts to the General Shareholders Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Auditing Committee and the auditors should give a clear account to shareholders of their scope and content.**

See section: C.1.38

Compliant X Partially compliant ☐ Explain ☐

**49. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent directors.**

See section: C.2.1

Compliant X      Explain ☐      Not applicable ☐

**50. The Nomination Committee should have the following functions in addition to those stated in earlier Recommendations:**

- a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
- b) Examine or organise, in appropriate form, the succession of the Chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.
- c) Report on the senior officer appointments and removals which the chief executive proposes to the board;
- d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: C.2.4

Compliant X      Partially compliant ☐      Explain ☐      Not applicable ☐

**51. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.**

**Any board member may suggest directorship candidates to the Nomination Committee for its consideration.**

Compliant X      Partially compliant ☐      Explain ☐      Not applicable ☐

**52. The Remuneration Committee should have the following functions in addition to those stated in earlier Recommendations:**

- a) Make proposals to the Board of Directors regarding:
  - i) The remuneration policy for directors and senior officers;
  - ii) The individual remuneration and other contractual conditions of executive directors.
  - iii) The standard conditions for senior officer employment contracts.
- b) Oversee compliance with the remuneration policy set by the company.

See sections: C.2.4

Compliant X      Partially compliant ☐      Explain ☐      Not applicable ☐

**53. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.**

Compliant X      Explain ☐      Not applicable ☐

## **H OTHER INFORMATION OF INTEREST**



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

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

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

For several years now, the Company voluntarily draws up an Annual Corporate Governance Report, available on the corporate website, following its own model, structure and content. It intends to adequately respond to its shareholding's requirements and recommendations (to which we refer for any interested third party). This Report, drawn up according to the Standard Form provided in Annex I to CNMV Circular 5/2013, has been included as an Official Annex to said Annual Corporate Governance Report of the Company.

C.1.2 and C.1.3: The Board of Directors Meeting held on 13 February 2015, further to a proposal from the Governance and Corporate Responsibility Committee, has decided to appoint as independent director of the Company, by co-optation, Mr. José Luis Feito Higuera, to cover the vacancy left by Mr. Juan Iranzo Martín's resignation from office as independent director, on 13 October 2014, which was accepted by the Board of Directors at its meeting held on 28 October 2014. Consequently, at the date of approval of this Report, the Board of Directors of the Company consists of 11 directors: 1 executive director (representing 9% of the Board members), 7 independent directors (representing 63.7% of the Board members) and 3 proprietary directors (representing 27.3% of the Board members). The professional profile of the independent director Mr. José Luis Feito Higuera, appointed by the Board of Directors at its meeting of 13 February 2015, is available on the corporate website and will be published and included in the documentation of the next Ordinary General Shareholders Meeting of the Company, once it is called.

The resignation date indicated with respect to Mr. Alfredo Parra García-Moliner, Mr. José Ángel Partearroyo Martín and Mr. Juan Iranzo Martín coincides with the date of acceptance of their resignation by the Company's Board of Directors.

C.1.4: Following the appointment of the independent director Mr. José Luis Feito Higuera, at the Board of Directors Meeting of 13 February 2015, the number of

female members on the Board of Directors (5) represents 45.45% of all Board members, all of whom are independent directors.

C.1.22: Of interest is the new content of Article 529.ter) LSC, which includes the following non-delegable powers in tax matters entrusted to the Board of Directors:

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

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

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

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

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

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

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

In order to calculate its total tax payments, the Red Eléctrica Group has followed PwC's Total Tax Contribution (TTC), which measures the total impact derived

from a company's payment of tax. This appraisal is conducted in terms of the total contribution of taxes paid to various Administrations, directly or indirectly, as a result of Red Eléctrica Group's economic activity.

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

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

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

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

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

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

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

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

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

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

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

C.1.26: - In light of the notice provided by the Chairman of the Board of Directors, Mr. José Folgado Blanco, to the Governance and Corporate Responsibility Committee, before reaching the age of 70 years (which took place on 3 April 2014), where he formally handed over his post to the Board of Directors, pursuant to Article 22.2.a) of the Board Regulations, and based on the opinion issued by the Governance and Corporate Responsibility Committee, at its meeting held on 16 January 2014, in the sense that his resignation as director was not necessary, the Board of Directors, at a meeting held on 28 January 2014, unanimously agreed to ratify his position as director and chairman of the Board of Directors; clearly, Mr. Folgado is fully capable and capacitated to perform his duties on the Board of Directors of Red Eléctrica Corporación, S.A., as evidenced by the value he has been providing to the Company as its chairman. Consequently, Mr. Folgado's office as director, approved by the General Shareholders Meeting, was extended until 19 April 2016.

E.1: The 4<sup>th</sup> edition of the Integrated Risk Management Policy is in force. Its update was approved by the Board of Directors on 25 November 2014.

The 4<sup>th</sup> edition of the General Procedure for Integrated Risk Management and Control is currently in force, and was approved by the Management Committee on 17 January 2013.

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on 24/02/2015.

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

Yes ☐ No ☒



**RED ELÉCTRICA CORPORACIÓN, S.A.**

Independent Assurance Report on the design and effective  
application of the System of Internal Control over Financial Reporting

31 December 2014





This version of our report is a free translation from the original in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

## **INDEPENDENT ASSURANCE REPORT ON THE DESIGN AND EFFECTIVE APPLICATION OF THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

We have verified, to the level of reasonable assurance, the design and effective application of the System of Internal Control over Financial Reporting (SICFR), described in the accompanying document of Red Eléctrica Corporación, S.A. and subsidiaries (the Red Eléctrica Group) for the year ended 31 December 2014. This system is based on the criteria and policies defined by the Red Eléctrica Group in accordance with the guidance published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in their "Internal Control-Integrated Framework".

A System of Internal Control over Financial Reporting is a process designed to provide reasonable assurance on the reliability of financial information, in accordance with the applicable financial reporting legislative framework and includes those policies and procedures which: (i) enable the records reflecting the transactions performed to be kept accurately and to an appropriate level of detail; (ii) provide reasonable assurance that transactions are correctly accounted for, enabling the preparation of the financial information, in accordance with the applicable financial reporting framework and they are performed solely in accordance with established authorisation; and (iii) they provide reasonable assurance concerning the timely prevention or detection of unauthorised acquisitions, use or sales of the Group's assets which may have a material impact on the financial information. In this respect, it should be borne in mind that, given the limitations inherent in all Systems of Internal Control over Financial Reporting, irrespective of the quality of design and operability, these can only provide reasonable but not absolute assurance, for the objectives pursued, accordingly, there may be errors, irregularities or fraud which may not be detected.

### **Responsibility of the Directors for the System of Internal Control over Financial Reporting**

The Board of Directors is responsible for adopting the necessary measures to reasonably assure the implementation, maintenance and supervision of an adequate System of Internal Control over Financial Reporting and assessing its efficiency, the development of improvements to that system and the preparation and definition of the content of the information concerning the attached SICFR report.

### **Professional's Responsibility**

Our responsibility is limited to issuing an independent assurance report on the design and effective application of the System of Internal Control over Financial Reporting of the Red Eléctrica Group, on the basis of the work carried out in accordance with the guidance contained in ISAE 3000: "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", published by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC), for the issue of reasonable assurance reports.



Reasonable assurance engagements include understanding the System of Internal Control over Financial Reporting, assessing the risk that there may be material internal control weaknesses, that the controls are not adequately designed or do not operate efficiently, testing and assessing the design and effective application of such system and carrying out those other procedures which may be considered necessary.

We understand that the evidence that we have obtained provides a sufficient and appropriate basis for our opinion.

### **Procedures performed**

For the purposes of the issue of this report, we applied the procedures described below:

1. Reading and understanding the information prepared by the Red Eléctrica Group on the SICFR and assessing whether it includes all the information required under Circular 5/2013 of 12 June 2013 of the Spanish National Securities Exchange Commission, for the purposes of describing the SICFR in Annual Corporate Governance Reports.
2. Review of the supporting documentation, explaining the information included above and which mainly comprises that directly made available to the persons responsible for preparing the descriptive information of the SICFR. In this respect, such documentation includes reports prepared by the Internal Audit function, Senior Management and other internal and external specialists as part of their work supporting the Audit Committee.
3. Interviews with key personnel, responsible for the areas affected by the System of Internal Control over Financial Reporting in order to gain an understanding of the processes, assess their design and verify that the control procedures described are in place in the Red Eléctrica Group.
4. Performance of selective tests, based on sampling criteria, on supporting documentation evidencing the effective application of the System of Internal Control over Financial Reporting.
5. Re- performance of key controls through a selection of transactions in order to obtain evidence that internal control procedures are applied in the established manner and obtain assurance of the existence, effectiveness and on-going functioning of controls throughout the period.
6. Reading of the minutes of the meetings of the Board of Directors, Audit Committee and other committees of the Red Eléctrica Group for the purposes of assessing consistency between the matters addressed by them in connection with the SICFR and the information detailed in point 1 above.
7. Obtaining the letter of representation for the work performed, duly signed by the persons responsible for the preparation and writing up of the information detailed in point 1 above.

### **Independence**

We carried out our work in accordance with the independence rules required by the Code of Ethics of the International Federation of Accountants (IFAC).



## Conclusion

In our opinion, at 31 December 2014, the Red Eléctrica Group had, in all material respects, an effective System of Internal Control over Financial Reporting for the year ended 31 December 2014, which is based on the criteria and policies defined by the Management of the Red Eléctrica Group in accordance with the guidance published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control – Integrated Framework".

Similarly, we verified that the disclosures contained in the SICFR information attached at 31 December 2014 have been prepared, in all materials respects, in accordance with the requirements laid down by Legislative Royal Decree 1/2010, of 2 July, which approved the revised text of the Spanish Corporations Law, modified by Law 31/2014, of 3 December, for the improvement of the Corporate Governance, and Circular 5/2013 of 12 June 2013 of the Spanish National Securities Market Commission for the purposes of the description of the SICFR in Annual Corporate Governance Reports.

This engagement does not constitute an audit of the accounts, nor is it subject to the Audit Law, approved by Legislative Royal Decree 1/2011, of 1 July. Accordingly, we do not express an audit opinion in the terms envisaged in said legislation.

PricewaterhouseCoopers Auditores, S.L.



Iñaki Goriñena Basualdu

25 February 2015



## ACKNOWLEDGEMENTS

**Published by:**

Red Eléctrica  
P.º Conde de los Gaitanes, 177  
28109 Alcobendas - Madrid  
[www.ree.es](http://www.ree.es)

**Edition and Co-ordination:**

Communication and Corporate Image Department of Red Eléctrica

**Graphic design and layout:**

MRM Worldwide Spain, S.A.

Free translation from the original in Spanish. In the event of  
discrepancy, the Spanish-language version prevails