



Annual  
Corporate  
Governance Report  
**2008**



RED ELÉCTRICA CORPORACIÓN

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AND PRACTICES WITHIN RED ELÉCTRICA
  
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FOR RED ELÉCTRICA CORPORACIÓN S.A.  
FOR THE 2008 FISCAL YEAR,  
IN ACCORDANCE WITH CNMV CIRCULAR 4/2007 FORMAT

*This English translation is exclusively for information purposes and is based on the original, official document in the Spanish language, available in the Spanish version on the company's web site.*

# Corporate Governance Principles and Practices within Red Eléctrica<sup>(1)</sup>

# 01



*(1) The information in this section is summarised in the corresponding chapter of the Company's 2008 Corporate Responsibility Report.*

# I. Governing and management bodies



## 1. INTERNAL LEGAL FRAMEWORK

### 1.1. Introduction

Regarding corporate governance, RED ELÉCTRICA CORPORACIÓN, S.A. (hereinafter "RED ELÉCTRICA") is governed by the rules and procedures described below. They contain its own governing system, which goes beyond the applicable legal requirements.

These rules can always be consulted on the website ([www.ree.es](http://www.ree.es)). At 31 December 2008 they are contained in the following documents:

- ◀ The Bylaws.
- ◀ The General Shareholders Meeting Regulations.
- ◀ The Board of Directors Regulations.
- ◀ The Internal Regulations for Conduct in the Securities Market.
- ◀ The Procedures for remote proxies, voting and information for the General Shareholders Meeting.
- ◀ The Code of Ethics.

### 1.2. Bylaws

They are subject to constant adaptation to best corporate governance practices and principles. For that purpose they have been successively amended by the Company's Ordinary General Meeting over the last 5 years. The General Shareholders Meeting held on 22 May 2008 approved the most recent amendment of the bylaws, within the framework of the recent process of corporate reorganisation, to adapt them to the requirements of Act 17/2007 of 4 July 2007 amending Electricity Sector Act 54/1997 of 27 November 1997 to adapt it to the provisions of Directive 2003/54/EC of the

European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity.

All of the amendments have been notified to the CNMV and registered with the commercial register.

### **1.3. General Shareholders Meeting Regulations**

Approved by the General Shareholders Meeting of 17 July 2003, and amended by the Ordinary General Shareholders Meeting of 22 May 2008, to adapt to the aforesaid Act 17/2007 of 4 July 2007.

The Regulations incorporate the basic principles of shareholder rights within RED ELÉCTRICA, in line with best corporate governance practices. They include all of the new forms of shareholder protection and participation, the objective being to recognise, encourage and strengthen their rights within the Company to the maximum extent possible.

All of the amendments have been notified to the CNMV and registered with the commercial register.

### **1.4. Board of Directors Regulations**

They were approved by the Board of Directors on 20 December 2007, amending the prior text of 11 November 2003.

As indicated in article 22 of the Bylaws, the principal purpose is to establish the basic rules of organisation and procedure of the Board of Directors and its committees, the rules of conduct for its members and the system of supervision and control of the Board of Directors and its committees, to achieve the greatest professionalism and effectiveness in its actions. All of this is carried out by encouraging the active participation of its members, giving priority to the interests of the Company and of its

shareholders over their own interests, and upholding the law, bylaws and corporate governance principles.

They have been notified to the CNMV and recorded with the commercial register.

The Board of Directors, at its meeting of 18 December 2008, on proposal of the Nominating, Compensation and Corporate Governance Committee, resolved to repeal the Independent Director's Statute, because its content had been incorporated in the Company's current Board of Directors Regulations.

#### **1.5. Internal Regulations for Conduct in the Securities Market**

They were approved by the Board of Directors on 20 July 2006, and replace the prior texts regarding the matter approved in 1994 and 2003.

The regulations go beyond the strict legal requirements, being characterised by the Company's constant objective to implement best corporate governance practices. The regulations are particularly notable by reason of their adaptation to the rules regarding market abuse, processing of material privileged information and obligations to disclose shareholdings of directors and executives to the CNMV, as well as approval of a whole series of procedures in respect of transactions in its own shares (treasury share transactions).

They have been registered with the CNMV.

#### **1.6. Procedures for Remote Proxies, Voting and Information at the General Shareholders Meeting**

The Company's Board of Directors for the first time adopted a procedure for electronic voting at the Ordinary General Shareholders Meeting held on 26 May 2005. The Company was one of the first listed companies to successfully implement electronic voting for its shareholders. Starting at that time, the Board of Directors

each year approves a procedure for electronic voting to be used at the General Shareholders Meeting. It incorporates various innovations in light of acquired experience, technological advances, the most recent practices and recommendations and the required legal security.

Thus, since 2006 remote proxies, voting by mail and issuance of duplicate attendance, delegation and voting cards have been permitted. So too has the possibility of requesting information by electronic means. All of the foregoing is accordance with the provisions of the Bylaws and the General Meeting Regulations.

The Board of Directors meeting of 17 April 2008 approved the rules regarding remote voting and proxies and exercise of the right to information via electronic means for the Ordinary General Shareholders Meeting for the 2007 fiscal year. As an innovation it included the possibility of using the electronic national identity document. The procedure again was a success. 315 shareholders, the holders of 64,670 shares, voted and/or gave proxies electronically. This was more than the 53,186 electronic votes and/or proxies used at the General Shareholders Meeting for the 2007 fiscal year.

### **1.7. Code of Ethics**

It was approved at the Board of Directors meeting of 26 July 2007, after an extensive process of public disclosure during which more than a hundred comments were received from all employees of the Group.

The code reflects the corporate identity and commitments to the business community and various stakeholders affected by the activities of the RED ELÉCTRICA Group. The code contains the fundamental principles that must guide all members of the Board of Directors, the management bodies and the employees of the RED ELÉCTRICA Group. In addition it can be invoked by the stakeholders. Particularly notable is the code's internal procedure for management of inquiries and complaints, to assure the proper response.

This procedure is already in operation.

It was voluntarily prepared by the Company, and has been disseminated to all Red Eléctrica Group personnel.

The Company's chairman has appointed an ethical manager responsible for administering the system for discovering and processing violations and complaints under the Code of Ethics.

During 2008 the Audit Committee engaged in in-depth analysis of the processes of implementation of the Company's Code of Ethics, particularly the aforesaid procedure for complaints regarding financial and accounting irregularities.

In addition there have been information sessions and presentations regarding the Code of Ethics, with the active participation of the ethics manager, both at corporate headquarters and in all regional offices, in order to achieve appropriate dissemination of its principles and recommendations. Among others, these include those related to the procedure for complaints regarding financial and accounting irregularities, with particular attention to possible doubts and clarifications required by its recent implementation.

### **1.8. Constant Adaptation and Modification of Rules**

The Company's corporate governance rules are constantly amended to improve shareholder information rights and lend greater transparency to market information.

In 2007, on a voluntary basis, before it was required, the Bylaws, General Shareholders Meeting Regulations and Board of Directors Regulations were adapted to the recommendations contained in the Uniform Good Governance Code of Listed

Companies (Código Unificado de Buen Gobierno de las Sociedades Cotizadas, “CUBG” or “Conthe Code”), approved on 19 May 2006 by the Special Working Group advising the CNMV on standardisation and updating of recommendations in the Olivencia and Aldama Reports on good governance of listed companies.

As indicated above, throughout the 2008 fiscal year the bylaws and the General Shareholders Meeting Regulations were again amended, to adapt them to Act 17/2007 of 4 July 2007. Also, a procedure regarding remote proxies, votes and information was approved for the Ordinary General Shareholders Meeting corresponding to the 2007 fiscal year.



## 2. ORDINARY GENERAL SHAREHOLDERS MEETING

### 2.1. Organisation, Authority and Composition

The General Meeting, duly called and legally constituted, represents all the shareholders and exercises the functions corresponding to it within the Company.

Its resolutions, adopted pursuant to the Meeting Regulations and the Bylaws, bind all shareholders, notwithstanding their legal right of withdrawal. The General Meeting has authority to adopt all resolutions inherent in its status as the Company’s sovereign body. In particular, by way of illustration, it has authority:

- ◀ To approve the financial statements of RED ELÉCTRICA and its subsidiaries, the management performance of the Board of Directors, and the proposed allocation of profits.
- ◀ To appoint and remove directors, to ratify or revoke their appointment by cooption and to appoint and re-elect auditors of accounts.
- ◀ To approve programmes for or authorise transactions in treasury shares.
- ◀ To approve the establishment of compensation systems tied to share value in favour of directors.

- ◀ To resolve to issue debentures, increase or decrease capital, transform, merge, spin off or dissolve the Company, and make any amendment of the Bylaws.
- ◀ To authorise the Board of Directors to increase capital pursuant to the provisions of the Corporations Act (Ley de Sociedades Anónimas).
- ◀ To approve transactions the effect of which is equivalent to changing the Company's corporate purpose.

The Board's organisational and procedural rules are included in the Bylaws (articles 11 to 18, both inclusive) and in the General Shareholders Meeting Regulations.

## **2.2. Shareholding Structure of the Company**

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

The State Industrial Ownership Corporation (Sociedad Estatal de Participaciones Industriales, or "SEPI") at 31 December 2008 is the direct owner of a significant interest in the Company, holding 27,054,000 shares, which represent 20% of capital.

There is no individual or legal entity that exercises or may exercise control over the Company, as provided in article 4 of the Securities Market Act.

Thus, the shareholding structure of the Company consists of 20% owned by SEPI, with the remaining 80% on free float. As explained below, no other shareholder has an interest greater than 5%.

## **2.3. Special Legal Status of RED ELÉCTRICA and Limitations Imposed on Shareholdings Therein**

The effectiveness of the aforesaid Act 17/2007 of 4 July 2007 introduced various changes affecting the Company's shareholders.

The purpose of these amendments is, inter alia, to guarantee the Company's independence as regards the other activities and participants in the electricity sector, since the business conducted by RED ELÉCTRICA is considered by the national legislature to be an essential service. Specifically, the second section of the third additional provision of Act 17/2007 of 4 July 2007 establishes new maximum limits on shareholdings in the Company, which are summarised below:

- ◀ Any individual or legal person may hold shares in the Company, provided that the sum of its direct and indirect interests in the Company is not more than five percent (5%) of capital. Nor can it exercise more than three percent (3%) of voting rights. These shares may not be pooled for any purpose whatsoever.
- ◀ Those engaging in business in the electricity sector, and the individuals or legal persons that directly or indirectly hold greater than five percent (5%) interests therein, may not exercise more than one percent (1%) of the voting rights in the Company.
- ◀ The special system for the SEPI is maintained, whereby it in any case must hold at least a ten percent (10%) interest.

The legal provisions regarding the general and special shareholding systems are set forth in articles 5 and 14 of the sole additional provision and the second transitional provision of the Company's Bylaws, and articles 6.3 and 15.8 of its General Shareholders Meeting Regulations. In order to adapt them to the provisions of Act 17/2007 of 4 July 2007, described above, they were amended at the Ordinary General Shareholders Meeting of 22 May 2008.

#### **2.4. Shareholder Rights**

RED ELÉCTRICA's effort in recent years to respond to expectations of its shareholders and investors, beyond the requirements established by law, has led to its public recognition by the markets, institutions and specialists in the sector.

Shareholder rights are regulated in article 15 of the Bylaws, which expressly refers to the information right and right to attend General Meetings, and in articles 6 to 10 of the Meeting Regulations.

### **Right to Information**

The Company is especially attentive to the right to information, as reflected in article 15 of the Bylaws and article 8 of the Meeting Regulations. Article 8 of the Meeting Regulations establishes an obligation to place documentation and information related to the agenda of the Meeting at the disposal of shareholders, free of charge, both through the Shareholders Office and on the corporate website.

In addition, shareholders during the Meeting can verbally request such reports or clarifications as they consider appropriate regarding matters included on the agenda. If this right cannot be satisfied at that time, the Board of Directors must provide the information in writing within seven days following the holding of the meeting.

### **Right of Attendance**

Shareholders may attend the General Shareholders Meeting if they are current in payment of capital contributions and demonstrate ownership by certification in their names in the accounting register of book entries five days before the day the meeting is to be held. Board members and officers of the Company must attend the General Meetings.

As a general rule, to promote the broadest dissemination of information regarding meetings and the resolutions adopted, the communications media are given access to the General Meeting. To this effect, article 15 of the Bylaws and article 10 of the Meeting Regulations provide that shareholders with the right to attend (which all shareholders enjoy, because there is no requirement regarding a minimum number of shares to attend the meetings) may be represented in the General Meeting by another shareholder with the right to attend, as established in the Corporations Act.

### Right to Participate and New Technologies

The Shareholders Meeting Regulations also facilitate as far as possible participation of shareholders in matters of interest (right to attend, call, inclusion of points and proposals on the agenda, questions and requests for information and voting).

The Meeting Regulations provide that shareholders owning 5% of capital may request that the Board, prior to the call, include any point on the agenda for the next General Meeting. The Board of Directors must include the matters requested in the form that best suits the Company's interest, whenever they refer to matters within the authority of the General Meeting. Shareholders may also make proposals regarding matters included on the agenda, and make suggestions regarding activities and interests of the Company that, in their judgment, should be discussed at the General Meeting. In both cases, shareholders may make the proposals and suggestions through the Shareholders Office.

RED ELÉCTRICA in 2005 for the first time used the electronic voting system. It was one of the pioneering companies in use of the system. Through the corporate website, [www.ree.es](http://www.ree.es), it allowed shareholders to exercise their voting rights electronically.

Following the ongoing line of providing its shareholders with advanced online means of exercising their rights, as indicated above, the Board of Directors meeting held on 17 April 2008 approved the rules regarding remote voting and proxies and exercise of the right to information via electronic means for the Ordinary General Shareholders Meeting for the 2007 fiscal year. As an innovation it included the possibility of using the electronic national identity document. The procedure again was a success. 315 shareholders, the holders of 64,670 shares, voted and/or gave proxies electronically.

In addition, the General Shareholders Meetings and the principal presentations regarding the Company are directly retransmitted on the Internet and simultaneously translated to English.

## **2.5 Best Corporate Governance Practices in respect of the General Shareholders Meeting and Shareholder Rights.**

### **Proposed Resolutions**

- ◀ For some time proposed resolutions have been fully published upon call of the General Meeting. All information relevant to shareholders is made available on the corporate website, which is designed to facilitate the shareholder information right.

### **Annual Reports**

All documentation submitted for approval of the Board, particularly the Annual Corporate Governance Report, is made available to all shareholders.

A full section of the General Shareholders Meeting agenda is devoted to reporting on the principal characteristics of the Annual Corporate Governance Report.

The annual reports of activities of the Audit Committee and the Nominating, Compensation and Corporate Governance Committee are made available to all shareholders.

A Shareholder Bulletin is published quarterly. It covers the principal news regarding the Company.

### **Presence of Audit Committee Chairman**

- ◀ The chairman of the Audit Committee is available to all shareholders during General Meetings, to deal with such matters within his competence as may be presented.

### **Separate Voting on Matters**

- ◀ The agenda for the General Meeting is as detailed as possible.

- ◀ Separate voting on matters is permitted. This is even true of remote voting. The point is that, by requiring voting on an individual basis, each shareholder has full decision-making freedom and independence in respect of each matter submitted to a vote.

### **Electronic Voting and New Technologies**

To avoid repetition see section 2.4 above.

### **The Company's Website**

- ◀ The content of the Company's website is strengthened, as a means of communication with shareholders and investors by taking the following actions:
  - the inclusion of the quorum requirement and result of the votes on each of the proposals made to the General Meetings held in the past year.
  - the addition of information relating to the right of attendance and proxy appointment procedures for General Meetings, in accordance with the Bylaws and General Meeting Regulations.
  - the creation of a specific section regarding electronic voting and proxies.
  - the creation of a section relating to outstanding securities issues.
  - the creation of a section relating to the rating given by credit rating agencies.
  - the expansion of information regarding shareholdings, with greater detail regarding significant interests, treasury shares and shareholders agreements.

### **Publication of Resolutions**

- ◀ On the same day that a Meeting is held, or on the immediately following working day, the Company sends the texts of approved resolutions to the CNMV by means of the appropriate material disclosures.
- ◀ The texts of the resolutions also are available on the Company website, after they are disclosed to the CNMV.

### **Retransmission on the Internet. Simultaneous Translation**

- ◀ Presentations to analysts and General Shareholders Meetings are retransmitted in real time on the Company's website. Archived availability of the presentations on the website.
- ◀ In 2007 and 2008 the General Meeting was directly retransmitted, as a video webcast, with simultaneous translation to the English language.
- ◀ All documentation submitted for the information and approval of the Meeting is translated to English, including the Annual Corporate Governance Report.

### **Right to Participate**

- ◀ Shareholders owning 5% of share capital may request that the Board, prior to the call, include any point on the agenda for the next General Meeting.
- ◀ Shareholders may formulate proposals regarding matters included on the agenda and make suggestions regarding activities and interests of the Company that, in their judgment, should be discussed at the General Meeting.
- ◀ In both cases, they may make these proposals and suggestions through the Shareholders Office.

### **Right to Information**

- ◀ An open, free-flowing and accessible dialogue is maintained with shareholders. Communications are conducted with maximum transparency, providing all available information to shareholders at the same time as it is received by other participants in the securities and financial markets.
- ◀ Minority shareholders are served by maintaining a Shareholders Office to respond to any inquiry they wish to make.

- ◀ There is a commitment to make documentation and information related to the agenda of the meeting available to shareholders, free of charge, both through the Shareholders Office and on the corporate website, including the following documentation:
  - The call of the General Meeting with proposed resolutions and the corresponding reports of the Board of Directors.
  - Financial statements of the Company, consolidated financial statements and proposal for allocation of profits of the fiscal year.
  - Corporate management report and consolidated management report for the fiscal year.
  - Audit report for the consolidated financial statements and the Company's financial statements.
  - Annual Corporate Governance Report.
  - Social report (now called the corporate responsibility report).
  - Environmental report.
  - Any other report required, or as determined by the Board of Directors.

### **Request for Information**

- ◀ Shareholders may request pertinent documentation, reports or clarifications from the Company regarding matters included on the agenda, as well as information, clarifications or questions regarding information provided by the Company to the CNMV since the date of the last General Meeting.
- ◀ Shareholders during the Meeting may verbally request such reports or clarifications as they consider appropriate regarding matters included on the agenda.
- ◀ If this right cannot be satisfied at that time, the Board of Directors must provide the information in writing within seven days following the holding of the meeting, except in those cases in which, in the judgment of the chairman, publicising the requested information would be harmful to the Company's interests.

### Shareholders Office

- ◀ The Shareholders Office deals with requests presented by shareholders of the Company.
- ◀ Shareholders may also state questions in writing regarding information accessible to the public or that has been communicated to the competent authorities and make inquiries through that Office.

### Right of Attendance

- ◀ No bylaws restriction of any kind in this regard, for which reason no minimum number of shares is required in order to attend the General Meeting (one share, one vote).
- ◀ Board members and officers of the Company are required to attend the General Meetings.
- ◀ As a general rule, to promote the broadest dissemination of information regarding meetings and the resolutions adopted, the communications media are given access to the General Meeting and audiovisual recordings thereof are made.

## 3. BOARD OF DIRECTORS

### 3.1. Organisation, Authority and Composition

The Company acts through a board of directors comprised of 11 members that governs and represents the Company with the support of the Audit Committee and the Nominating, Compensation and Corporate Governance Committee.

The board's organisational and operating rules are included in the Bylaws (Article 19 to 26, both inclusive) and in the Board of Directors Regulations, approved on 20 December 2007.

Pursuant to the Bylaws and the Board of Directors Regulations, the criterion prevailing at all times in the board's activity is to ensure Company viability and value in the long term, and to protect and foster the Company's general interests.

The board specifically has all powers to manage and represent the Company, in and out of court, exercising said powers either directly or through their delegation, substitution or a power of attorney as allowed by law, the Bylaws and Board Regulations.

The board's policy is to delegate ordinary Company management to the management bodies and management team and to concentrate its work on the general supervisory function, approval of strategies and basic guidelines for operations and decisions highly significant to the interests of the Company.



The identity of the directors, the dates of their first and last appointment, position on the board and type of director, election procedure and board committee membership, at 31 December 2008, are as follows:

Director's Name	First Appointment	Last Appointment	Position on the Board	Type of Director	Election Procedure	Board Committee Memberships
Luis M <sup>a</sup> Atienza Serna	08/07/04	26/05/05	Chairman	Inside	General Meeting	Nominating, Compensation and Corporate Governance (member)
Antonio Garamendi Lecanda	20/07/99	22/05/08	Member	Independent outside	General Meeting	Nominating, Compensation and Corporate Governance (member)
Manuel Alves Torres	26/10/99	22/05/08	Member	Proprietary outside (SEPI)	General Meeting	Nominating, Compensation and Corporate Governance (member)
Rafael Suñol Trepát	16/12/04	26/05/05	Member	Proprietary outside (SEPI)	General Meeting	—
M <sup>a</sup> Ángeles Amador Millán	26/05/05	26/05/05	Member	Independent outside	General Meeting	Nominating, Compensation and Corporate Governance (chairwoman)
Francisco Javier Salas Collantes	28/06/05	26/05/06	Member	Independent outside	General Meeting	Audit (chairman)
Martín Gallego Málaga	28/06/05	26/05/06	Member	Independent outside	General Meeting	—
José Rodrigues Pereira dos Penedos	22/05/08	22/05/08	Member	Independent outside	General Meeting	—
José Folgado Blanco	22/05/08	22/05/08	Member	Independent outside	General Meeting	—
Arantza Mendizábal Gorostiaga	22/05/08	22/05/08	Member	Independent outside	General Meeting	Audit (member)
María Jesús Alvarez González	22/05/08	22/05/08	Member	Proprietary outside (SEPI)	General Meeting	Audit (member)

### 3.2. Experience

Identified below are the principal activities of the Board members outside the Company at 31 December 2008:

#### Chairman, inside director



**Luis Mª Atienza Serna**, born 30 August 1957.

Degree in Economics and Business, Universidad de Deusto; Certificate in Advanced European Studies, Universidad de Nancy (France), Centre for Advanced European Studies; Certificate in Development Economics (D.E.A.), Universidad de Nancy, School of Law and Economics.

#### Formerly:

Minister of Agriculture, Fisheries and Food. General Secretary for Energy and Mineral Resources, Ministry of Industry and Energy. Chairman, Institute for Energy Savings and Diversification (IDAE). Chairman, Spain Geomining Technological Institute. Chairman, Centre for Energy, Environmental and Technological Research (CIEMAT). General Secretary, Agrarian Structures, Ministry of Agriculture, Fisheries and Food. Economic Councillor, Basque Government. Member of the Basque Parliament. Professor, School of Economics and Business and International Business Administration Institute and Institute for European Studies, Universidad de Deusto. Member of the Boards of Directors of Instituto Nacional de Hidrocarburos (INH), Corporación Logística de Hidrocarburos (CLH) Ente Vasco de la Energía (EVE). He has given many courses, seminars and lectures, and has published articles on economic, energy and agrarian policy and European research in economic and general publications, including working documents for university institutes and research centres.

#### Currently:

Member of the Board of Directors of Redes Eléctricas Nacionais, SGPS, S.A.



### Independent outside director

**Antonio Garamendi Lecanda**, born 8 February 1958.

Entrepreneur. Law Degree, Universidad de Deusto.

#### Formerly:

General Delegate of Equitativa, S.A. in Vizcaya.

Managing Director of Bankoa, S.A. Insurance Brokerage Company.

Chairman, Handyman, S.L.

Chairman of the "Negocios de Comunicación" Group (La Gaceta de los Negocios, Dinero magazine, Intereconomía Radio and OTR News Agency).

Director, Babcock & Wilcox Española, S.A.

Director, Albura, S.A. (Red Eléctrica de Telecomunicaciones)

Director, Tubos Reunidos, S.A.

Member, Strategic Committee, Grupo Alta Gestión, S.A.

Chairman, Spanish Confederation of Young Entrepreneurs (CEAJE).

Chairman, Business Creation Commission, CEOE.

Member, Property Association of Vizcaya

Board member, Guggenheim Museum

Vice Chairman, Entel Ibai, S.A.

#### Currently:

Chairman, Galea Empresarial, S.L.

Chairman, Palacio de Moronati, S.L.

Managing Director, Iniciativas de Comunicación Económica, S.A. (ICESA)

Insurance Broker. Willis Iberia, S.A.

Member of the Strategic Committee of Sodexho Pass, S.A. Group

Chairman, Energy Committee, CEOE. Director, CEOE

Member and Treasurer, Confemetal and the Formetal Foundation.

Committee Member, Institute for Economic Studies (IEE)

Member, Board of Directors, Empresarial de Vizcaya (CEBEK)

Member of the Executive Committee of the Vizcaya Federation of Metal Companies.

Member, Chamber of Commerce of Vizcaya



**Proprietary outside director proposed by SEPI**

**Manuel Alves Torres**, born 18 March 1954.

Degree in Economics and Business.

**Formerly:**

Head of Budgeting, Standard Eléctrica, S.A. Advanced Technician, Assistant Manager of Companies, Corporate Sub-Manager, INI. Manager of Planning and Supervision, Teneo. Member, Boards of Directors of Potasas de Subiza, Potasas de Suria, Grupo Ence, Grupo Inespal, Enatcar, Clínica Castelló, Minas de Almagrera, Agencia Efe, Binter Canarias and Hipódromo de la Zarzuela and Sedettur.

**Currently:**

Director of Planning and Control, SEPI. Member, Management Committee, SEPI. Board Member, SEPI Foundation (formerly Public Company Foundation) and SEPI Employment Foundation. Director, Tragsa.

**Proprietary outside director proposed by SEPI**

**Rafael Suñol Trepal**, born 4 July 1944.

Degree in Economics and Business, E-1969, ADE-ESADE 1980, PADE-IESE 1999.

**Formerly:**

Managing director of Aurica, SCR, S.A., partner of Socios Financieros and president of Activa Ventures. Director and Vice Chairman of Fecsa and director of Endesa. Managing Director of Banco de Fomento. Chairman of Banco de Crédito Industrial and director of ICO. Assistant General Manager of GDS, Caja de Barcelona, after working for Banco Urquijo, Barcelona. Chairman of Crédito & Docks and of Dinvergestión, and director of companies related to Banco Central. Director of Ericsson España, Frida Alimentaria and Visual Tools, and chairman of Cobrhi.

**Currently:**

Executive Vice Chairman, Catalana de Iniciatives SCR, director of Abantia-Tycsa, Peugeot España, Inypsa, Telstar and Serveis Funeraris de Barcelona.





#### Independent outside director

**Mª Ángeles Amador Millán**, born 10 October 1949.

Law Degree, Universidad Complutense de Madrid.

#### Formerly:

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

Representative of the Governing Board of the Madrid Bar Association.

Assistant Secretary of the Ministry of Health and Consumer Affairs.

Minister of Health and Consumer Affairs.

Member of Congress representing Segovia.

Spokeswoman for Health Matters in Parliament for Grupo Parlamentario Socialista.

Member of Congress representing Madrid.

Vice Chairman of the Constitutional Commission of Congress.

#### Currently:

Practising attorney.

Member of the Governing Board of the Madrid Bar Association.

Board member, Fundación Arte y Derecho.

Board member, ICO Foundation.

#### Independent outside director

**Francisco Javier Salas Collantes**, born 6 March 1948.

Degree in Economics, specialising in Business Economics.

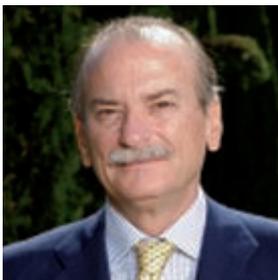
#### Formerly:

Specialist in credit analysis in the International Division of Manufacturers Hanover Trust Co. (New York).

Manager of Economic and Financial Planning and Manager of Economy and Finance, Empresa Nacional del Uranio (ENUSA). Financial Manager of Instituto Nacional Industria (I.N.I.) as Financial Manager.

General Corporate Manager, responsible for the following I.N.I. offices: Finance, Planning and Control, Technology and Investment.

Chairman, I.N.I. and Teneo.



Chairman, Iberia, Líneas Aéreas España, while also Chairman, I.N.I. and Teneo.

**Currently:**

Founding member and manager of Saga Servicios Financieros (Management and M&A Consultants).

Director of the following companies: I&F Ingeniería and Fachadas Holding Group, S.L. (chairman), Telvent and chairman of the Audit Committee, Ged Capital Development, S.A., Sgecr, Ged Iberian Private Equity, S.A., Sgecr and Prointec, S.A., REE and chairman of its Audit Committee.

Member of the Advisory Board (Spain) of Young & Rubicam, S.L.

Member of the Advisory Board (Spain) of Grupo Fcb/Tabsa.

Chairman of Fundación Entorno, Empresa y Medioambiente. Board member, Instituto de Cuestiones Internacionales y Política Exterior (Incipe).

Board member, APMIB Foundation (Vice Chairman).

Member of the Advisory Board and of the Scientific Academic Committee of the Fundación de Estudios Financieros.

**Independent outside director**



**Martín Gallego Málaga**, born 19 June 1940.

Doctorate in Mining Engineering. Specialty: Power. Universidad Politécnica de Madrid.

Degree in Economics, Universidad Complutense de Madrid.

Certificate in Industrial Project Assessment, World Bank, Washington D.C.

Specialist in Economic Development and International Aid, Instituto Complutense de Estudios Internacionales de Madrid.

**Formerly:**

General Secretary for Energy and Mineral Resources, Ministry of Industry and Energy.

Chairman, Nuclear Energy Board (currently CIEMAT), Institute for Energy Diversification and Conservation (IDAE), Spanish Geological and Mining Institute (ITGM) and Coordinating Committee of Energy Sector Research Offices.

Chairman of Hidroastur, S.A. and Grupo Minero de Wolframio La Parrilla, S.A.

Consultant for Endesa, Chase Manhattan Bank, Campsa, Price Waterhouse, Hunosa and Ofico.

Expert and Consultant for the European Communities Commission (Brussels) and the World Bank (Washington).

General Corporate Manager for International Trade and Diversification, Grupo Endesa. Member of following Boards of Directors: Instituto Nacional de Hidrocarburos, Campsa, Banco Saudí Español, Gas Andalucía, S.A., Tejo Energía, S.A., Electricidad de Caracas, S.A., Cable y Televisió de Catalunya, S.A., Cable y Comunicaciones Madrid, S.A., Aguas de Barcelona, Internacional del Agua, S.A. and managing director, Endesa Desarrollo, S.A. and Grupo Eléctrico de Telecomunicaciones, S.A.

Expert Director of the Spanish Economic and Social Council.

Director for Industry and Energy, Spanish Embassy in Washington.

**Currently:**

Coordinator, Foundation for Energy Studies.

Consultant in the School of Industrial Organisation.

Member of the Governing Council, CIEMAT.

**Independent outside director**

**José Rodrigues Pereira dos Penedos**, born 8 October 1945.

Degree in electrotechnical engineering, Instituto Superior Técnico.

Studies in distribution planning with Electricité de France, 1978.

Studies in senior management, AESE, 1988/1989.

Studies in strategic management, USW- Universitatseminar Der Wirtschaft, Germany, 1994.



**Formerly:**

Electricity Network Project, Exploration and Planning Engineer; Director-Direcção Operacional de Distribuição Centro. Commercial Centre Manager; Administrator of Sociedade de Eficiencia Energética, S.A. (ENERFIN). Administrator, member of the Projects Committee and chairman of the Board of Directors of ECONOLER, S.A. Board

Member of HIDRORUM0, S.A. Secretary of State for Energy; Secretary of State for Industry and Energy; Secretary of State for National Defence; Vice Chairman of “Comissão Parlamentar de Economía, Finanças e Plano”. Member, Comissão Parlamentar de Defesa. Vice Chairman of the Comissão de Inquérito GALP, ENI, IBERDROLA. Chairman of the Board of Directors of Rede Eléctrica Nacional, S.A. (REN). Chairman of the Board of Directors of RENTELECOM-Comunicações, S.A. Chairman of the Associação Portuguesa da Energía. Board Member of GALP ENERGIA. Board Member of GDP, S.A.

He also has participated in various forums and international organisations in the electricity sector.

**Currently:**

Chairman of Redes Energéticas Nacionais, SGPS, S.A. (REN).

Chairman since 2006 of the Union for the Co-ordination of Transmission of Electricity (UCTE).

Chairman since 2004 of the Conseil International des Grands Réseaux Electriques (CIGRE).

**Independent outside director**

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

Degree in economics with an extraordinary prize upon graduation.

Doctorate in Economics, Universidad Autónoma de Madrid.

**Formerly:**

Manager of the economics department of the CEOE.

Member of the Economic and Social Board representing business organisations.

Secretary of State for Energy, Industrial Development and Small and Medium-Sized Enterprises. Ministry of Economy.

State Secretariat for Budget and Expenditure. Ministry of Economy and Finance, since May 1996.

Secretary of State for Economy, Energy and Small and Medium-Sized Enterprises.



Ministry of Economy, representative of the province of Zamora in the Congress and Vice Chairman of the Economy and Finance Committee.

**Currently:**

Chaired Professor of Public Finance and Tax Systems at the Universidad Autónoma de Madrid.

Mayor of Tres Cantos (Madrid) since June 2007.

**Independent outside director**

**Arantza Mendizábal Gorostiaga**, born 22 February 1950.

Degree in economics.

Doctorate in economics.

Professor of Applied Economics.

**Formerly:**

Professor and researcher regarding industrial and technological policy.

Acting rector of the Universidad del País Vasco (UPV-EHU).

Professor, visiting fellow at St. Anthony's College (Oxford).

Member of Congress.

Spokeswoman for the Industry, Tourism and Trade Committee of the Congress.

Member, as a congresswoman, of the Economy and Finance Committee of the Congress.

Member, as a congresswoman, of the Budget Committee.

**Currently:**

Professor of Applied Economics at the School of Economics and Director of the European Documentation Centre of the Universidad del País Vasco.





#### **Proprietary outside director proposed by SEPI**

**María Jesús Álvarez González**, born 21 June 1957.

Degree in law, economics and business.

#### **Formerly:**

Director of Enusa Industrias Avanzadas, S.A., of Equipos Nucleares, S.A., of Clínica Castelló, S.A., of Indra Sistemas, S.A., of Infoinvest, S.A., of Infoleasing, S.A., of Empresa Nacional de Residuos Radioactivos, S.A. (ENRESA) and of Aluminio Español, S.A.

She has held various management positions within SEPI and engaged in various activities in the banking and industrial sector.

#### **Currently:**

Economic and Financial Manager of SEPI and a member of its Management Committee, a member of the Board of Directors of Agencia Efe, S.A., of the Fundación SEPI and of the Fundación Laboral SEPI.

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

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

He was appointed secretary of the Board of Directors and legal advisor at the board meeting of 4 May 1995.

Law degree, Universidad Complutense, Master's degree in Business Tax Advice, Instituto de Empresa.

#### **Formerly:**

Legal advisor to the Loss Department, Zurich, S.A., legal advisor and secretary of boards of directors of companies in the Inmobiliario Pradis Group. legal and tax advisor of Ageco, a financial and tax management company of Banco Internacional de Comercio, S.A., legal advisor in the law department of Sociedad Española de Carbón Exterior, S.A. (CARBOEX), legal advisor in the law department and head of the law department of Red Eléctrica de España, S.A.

#### **Currently:**

Member of the Madrid Bar Association, General Counsel of Red Eléctrica de España, S.A. and a director of Red Eléctrica de España Finance B.V.





#### **Non-director assistant secretary of the Board of Directors**

**Fernando Frías Montejo**, born 11 March 1965. He was appointed assistant secretary of the Board of Directors at its meeting of 21 April 2005.

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

#### **Formerly:**

Member of the law department of Red Eléctrica de España, S.A. since 1990 and the secretary of the Board of Directors of Infraestructuras de Alta Tensión, S.A., of Red de Alta Tensión, S.A. and of Tenedora de Acciones de Redesur, S.A.

#### **Currently:**

Member of the Madrid Bar Association and of the legal department of Red Eléctrica de España, S.A.

### **3.3. Committees**

#### **Audit Committee**

The authority, organisation and procedure of the Audit Committee are governed by the Bylaws and by the Board of Directors Regulations of RED ELÉCTRICA, adapted to current commercial legislation and the recommendations in the Conthe Code.

Throughout 2008 the Committee was comprised of only outside directors, with a majority of independent directors.

Nonetheless, it must be noted that in 2008 the following replacements were made on the Audit Committee:

- Mr. Pedro Rivero Torre, an independent director, who when he ceased to be a director on 22 May 2008 was no longer a part of that committee.
- Mr. Manuel Alves Torres, a proprietary director, who ceased to be a member of that committee on 20 June 2008.

To fill the foregoing two vacancies the Board of Directors, at its meeting of 20 June 2008, appointed the independent director Ms. Arantza Mendizábal Gorostiaga and the proprietary director Ms. María Jesús Álvarez González, who joined the meetings of the committee on 17 July 2008.

Following the aforesaid changes, the composition of the Company's Audit Committee at 31 December 2008 is as follows:

Director	Position	Type of Director
Francisco Javier Salas Collantes	Chairman	Independent outside
Arantza Mendizábal Gorostiaga	Member	Independent outside
María Jesús Álvarez González	Member	Proprietary outside (SEPI)

Section G) of the *Second Part* of this document attaches the annual report of the Committee's activities corresponding to the 2008 fiscal year.

### **Nominating, Compensation and Corporate Governance Committee**

In accordance with best corporate governance practices, particularly those indicated in the Conthe Code, in the 2007 fiscal year the Company's Board of Directors changed the name of the Committee. It became the Nominating, Compensation and Corporate Governance Committee. Under the bylaws it was assigned, inter alia, the functions related to corporate governance of the Company.

At the end of the 2008 fiscal year and at the date of approval of this report the Nominating, Compensation and Corporate Governance Committee consists of four directors. Three are outside directors and one is an inside director. Two of the outside Directors are independent, one of them being the chairman of the committee.

During 2008 there were the following changes in the composition of the committee, to fill the vacancies occurring on the committee after the renewal of the board undertaken by the Ordinary General Shareholders Meeting held on 22 May 2008:

- Mr. Manuel Alves Torres was appointed for a term of three years, to replace Mr. Juan Gurbindo Gutiérrez (both proprietary directors), by resolution of the Board of Directors adopted at the meeting of 20 June 2008, on proposal of the chairman of the Board of Directors after a favourable report from the Nominating, Compensation and Corporate Governance Committee held on 10 June 2008.
- Mr. Luis M<sup>a</sup> Atienza Serna was re-elected for a term of three years, as a member of the committee, by resolution of the Board of Directors adopted at the meeting of 20 June 2008, after a favourable report from the Nominating, Compensation and Corporate Governance Committee held on 10 June 2008.

At the end of the 2008 fiscal year and at the date of approval of this report the committee's composition was as follows:

Director	Position	Type of Director
M <sup>a</sup> Ángeles Amador Millán	Chairwoman	Independent Outside
Antonio Garamendi Lecanda	Member	Independent Outside
Luis M <sup>a</sup> Atienza Serna	Member	Inside
Manuel Alves Torres	Member	Proprietary Outside (SEPI)

The inside director and chairman of the Company, Mr. Luis M<sup>a</sup> Atienza Serna, is a member of the committee by unanimous decision of the Board of Directors, which believes it is of special interest for him to be present therein, without prejudice to his abstaining or absenting himself during discussion of all matters that could affect him personally or be susceptible of giving rise to a conflict of interest.

Section G) of the *Second Part* of this document attaches the annual report of the Committee's activities corresponding to the 2008 fiscal year.

### **3.4. Attendance at and Failure to Attend Board of Directors and Committee Meetings**

In accordance with best corporate governance practices, specified below are the presence or absence of directors of the Company at meetings of the Board of Directors and the Audit and Nominating, Compensation and Corporate Governance Committees, throughout the 2008 fiscal year.

#### **Board of Directors**

For the eleven (11) meetings of the Board of Directors held in 2008, there were only two (2) proxies, one by reason of illness.

#### **Audit Committee**

During the 2008 fiscal year there were twelve (12) meetings of the Audit Committee. Two (2) proxies were granted, one by reason of illness.

#### **Nominating, Compensation and Corporate Governance Committee**

In the 2008 fiscal year there were nine (9) meetings of the Nominating, Compensation and Corporate Governance Committee. There was one (1) proxy.

### **3.5. Self-Evaluation**

During the 2006 fiscal year, through the Nominating, Compensation and Corporate Governance Committee, the Company's Board of Directors initiated a process of self-evaluation of its internal operation, and operations of the two committees, the chairman of the Board of Directors and the directors. This process ended during the 2007 fiscal year.

During 2008 the self-evaluation process was carried out in light of the recommendations in the Uniform Good Governance Code of Listed Companies (“Conthe Code”). In light of the experience acquired by the Company, in this instance it has been deemed to be appropriate for the self-evaluation process to be undertaken by the board itself.

The chairwoman of the Nominating, Compensation and Corporate Governance Committee has coordinating the process with the active participation of the chairman of the Board of Directors and the chairman of the Audit Committee. All members of the board have actively cooperated in the process.

The Board of Directors at its meeting held on 24 July 2008 approved the self-evaluation report on the operation of the Board of Directors, its committees and its chairman, during the 2007 fiscal year, prepared by the Nominating, Compensation and Corporate Governance Committee.

A new process of annual self-evaluation of the Board of Directors began at the end of the 2008 fiscal year.

### **3.6. Compensation Policy**

During the 2008 fiscal year the total compensation earned by members of the Board of Directors of the parent company was 2,486,000 euros. This figure includes both the estimate of compensation tied to results and the salaries of those members of the board who are employees.

The breakdown of this compensation, corresponding to the parent company, by **compensation categories**, is as follows:

Compensation category	In thousands of euros
Fixed compensation	388
Variable compensation	1,253
Other benefits	12
Per diems	833
<b>TOTAL:</b>	<b>2,486</b>

Other benefits	In thousands of euros
Pension Funds and Plans: Contributions	12
<b>TOTAL:</b>	<b>12</b>

The breakdown of this compensation, corresponding to the parent company, by type of director, is as follows:

Type of director	In thousands of euros	
	By company	By group
Inside	782	
Proprietary Outside	516	
Independent Outside	1,188	
Other Outside		
<b>TOTAL:</b>	<b>2,486</b>	

Board compensation compared to profit allocated to the parent company is as follows <sup>(2)</sup>:

Total directors' compensation (in thousands of euros)	2,486
Total directors' compensation / profits allocated to controlling Company (as a %)	0.869

*(2) The profits obtained by the RED ELÉCTRICA Group and attributed to the parent company, in the 2008 financial year, amounted to 286,119,000 euros (243,049,000 euros in 2007).*

Total compensation of members of the Board of Directors of the Company during the 2008 fiscal year, in thousands of euros, broken down by director, is as follows:

	Thousands of euro				
	Fixed remuneration	Variable remuneration	Expenses for attending Board of Directors Meetings and Commissions	Life assurance and pension plan allocations	Total
Mr. Luis M <sup>a</sup> Atienza Serna	388	297	85	12	782
Mr. Pedro Rivero Torre <sup>(2)</sup>	-	37	36	-	73
Mr. Juan Gurbindo Gutiérrez <sup>(1)(2)</sup>	-	37	41	-	78
Mr. Antonio Garamendi Lecanda	-	96	91	-	187
Mr. Manuel Alves Torres <sup>(1)</sup>	-	96	85	-	181
Mr. José Riva Francos <sup>(2)</sup>	-	37	25	-	62
Mr. José Manuel Serra Peris <sup>(2)</sup>	-	37	28	-	65
Mr. Rafael Suñol Trepát	-	96	62	-	158
Mrs. María de los Ángeles Amador Millán	-	96	85	-	181
Mr. Francisco Javier Salas Collantes	-	96	85	-	181
Mr. Martín Gallego Málaga	-	96	61	-	157
Mr. José Folgado Blanco <sup>(3)</sup>	-	58	30	-	88
Mrs. Arantza Mendizábal Gorostiaga <sup>(3)</sup>	-	58	48	-	106
Mr. José Rodrigues Pereira Dos Penedos <sup>(3)</sup>	-	58	30	-	88
Mrs. María Jesús Álvarez <sup>(1)(3)</sup>	-	58	41	-	99
<b>Total remuneration accrued</b>	<b>388</b>	<b>1,253</b>	<b>833</b>	<b>12</b>	<b>2,486</b>

(1) Amounts received by Sociedad de Participaciones Industriales (SEPI)

(2) Stepped down from their position as Board Members in 2008

(3) Joined the Board of Directors in 2008

In addition, in 2008, in his capacity as a member of the Board of Directors of REN, the inside director received compensation in an amount of 30 thousand euros. At the request of the inside director himself, this amount has been deducted from his fixed annual compensation.

The Company also has established a compensation plan for executives (including the inside director) tied to meeting three-year (2006-2008) objectives. At 31 December it is pending evaluation and approval. It will be paid, if applicable, during the 2009 fiscal year.

There are guarantee or protection clauses in favour of inside directors to cover dismissals or changes of control. This agreement was proposed by the Company's Nominating and Compensation Committee and approved by the Board of Directors. Said clauses follow standard market practice and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless applicable regulations provide for a higher amount.

At 31 December 2008 the balance sheet reflected no loans, advances or guarantees established by the Company in favour of members of the Board of Directors. Nor at those dates were there any pension liabilities incurred vis-à-vis members of the Board of Directors.

During the 2008 fiscal years the members of the Board of Directors did not engage in any transactions with the Company or Group companies, directly or through persons acting on their behalf, outside the ordinary course of business.

### **3.7. Best Corporate Governance Practices within the Board of Directors**

#### **Composition of the Board**

- ◀ The Company has a small, active and efficient board of directors composed of eleven (11) members, instead of opting for a larger board that operates with the support of an executive committee.
- ◀ At present, the board is comprised of seven independent outside directors, three proprietary outside directors and one inside director, reflecting the current shareholder base of the Company and the corporate governance recommendations.

### **Board Committees**

- ◀ Under the Board Regulations and Bylaws there is a specific committee for corporate governance. It is called the Nominating, Compensation and Corporate Governance Committee.
- ◀ Financial statements and economic and financial information of the Company since 1999 have been prepared under the supervision and oversight of the Audit Committee, allowing improved transparency and reliability.

### **Functioning of the Board**

- ◀ The Board approves, sufficiently in advance, the schedule of meetings, with their respective agendas, and recognises the right of directors to introduce changes therein.

### **Self-Evaluation of the Board**

- ◀ Annually there is self-evaluation of the Board of Directors, the committees and the chairman of the Board of Directors.

### **Compensation of Directors and Senior Management**

- ◀ There is maximum transparency and publicity of the compensation of individual directors.
- ◀ There is a bylaws maximum on director compensation.
- ◀ Board compensation policy is subject to approval of the General Meeting as a separate and independent point on its agenda.

### **Experience and Term of Office of Directors**

- ◀ They are professionals of high standing with broad professional experience. They provide corporate management with the experience and knowledge necessary to meet the Company's needs.

- ◀ The term of office of independent directors, in accordance with the recommendations of the Unified Good Governance Code, generally is set at a maximum term of twelve (12) years, by contrast with the term of office of other directors, who serve for a maximum term of four (4) years. They can be indefinitely re-elected by the General Meeting.
- ◀ No proposal is to be made to remove a proprietary or independent outside director prior to completion of the term of office specified in the Bylaws for which the director was appointed, except for sufficient cause and after a report from the Nominating, Compensation and Corporate Governance Committee.

### **Chairman of the Board**

- ◀ The chairman of the Board of Directors heads the Company, as its chief executive officer responsible for senior management, for administration and for full representation of the Company, acting with authority delegated by the board.
- ◀ He is subject to specific control by the Board of Directors, to which he must report after the fact or, if applicable, request authorisation. Furthermore, the committees effectively control the corporate management within the scope of their respective authority.

### **Director Liability**

- ◀ The internal corporate governance rules strictly regulate the liability of directors, in general, and their diligence and loyalty obligations, in particular.
- ◀ Directors must act with due diligence, being required to play a proactive role within the board and on its committees.

### **Principle of Security and Duty of Loyalty**

- ◀ The Board Regulations establish, inter alia, the following obligations of directors:

- To appropriately review and prepare for meetings of the board and its committees to which they belong, and regularly attend them.
- To actively participate in deliberations so that their judgment effectively contributes to decision-making, and to perform any specific tasks assigned to them by the Board of Directors.
- To promote investigation of any irregularity in management of the Company of which they have notice, and the monitoring of any risk situation.
- If applicable to call extraordinary board meetings and collect the information necessary for efficient exercise of their authority.
- To oppose resolutions contrary to law, the Bylaws or the corporate interest.

### **Conflicts of Interest**

- ◀ Directors must refrain from attending and participating in deliberations affecting matters in which they have a personal interest, either direct or indirect.
- ◀ Directors must report any conflict of interest they may have with the Company, and in case of conflict will refrain from participating in the transaction to which the conflict of interest relates.
- ◀ Proprietary directors will disclose to the Board any conflict of interest between the Company and the shareholders proposing their appointment, when this affects matters submitted to the board, refraining from participating in the adoption of the corresponding resolutions.

### **Duty of Loyalty**

- ◀ Any director who, with prior knowledge, allows or does not disclose the existence of transactions effectuated by members of his family or other related persons or corporations in which he has a management position or significant holding, which are not submitted to the conditions and controls set forth in the foregoing articles, violates his duty of loyalty to the Company.

### **Confidentiality**

- ◀ The directors must maintain secrecy regarding deliberations of the Board of Directors and the committees of which they are members.
- ◀ Directors must refrain from disclosing information, data, reports or background information to which they have had access in the performance of their duties, even when they are no longer directors.

### **Non competition**

- ◀ The directors may not engage in activities that may result in competition with the Company.
- ◀ The directors may not provide their professional services to companies that have corporate purposes that are fully or partially similar to that of the Company, which may result in a conflict of interest between them.
- ◀ The directors are required to consult with the Board of Directors before accepting any directorship with another company or entity.
- ◀ Directors are required to report any interest they may have in any company engaged in any business identical, analogous or complementary to that of the Company, or that represents some degree of competition, as well as positions or functions exercised therein and activities on their own account or for others, outside the

Company, that are analogous or complementary to the activities included in the corporate purpose.

### **Use of Corporate Assets and Name**

- ◀ Directors may not use the assets of the Company or use their position in the Company to obtain an economic advantage, unless appropriate compensation is paid.
- ◀ Directors may not use the name of the Company or invoke their status as directors thereof when entering into any transactions on their own behalf or for related persons.

### **Private Information**

- ◀ Directors may not use Company information that is not available to the public for private purposes, except with the prior approval of the Board of Directors.

### **Business Opportunities**

- ◀ Directors may not, either directly or indirectly, for their own benefit or on behalf of related persons or third parties, take advantage of any business opportunity of the Company, unless said opportunity is previously offered to the Company and the Company declines to use it and authorises the director to do so, after a report from the Nominating, Compensation and Corporate Governance Committee.

## 4. SENIOR MANAGEMENT

### 4.1. Positions

The senior managers that, at 31 December 2008, served the RED ELÉCTRICA Group are as follows<sup>(3)</sup>:

Name	Position
Carlos Collantes Pérez-Ardá	General Manager of Transport
Esther M <sup>a</sup> Rituerto Martínez	General Manager of Administration and Finance
Alberto Carbajo Josa	General Manager of Operations

### 4.2. Compensation Policy

In the 2008 fiscal year the total compensation of senior managers (including 29,000 euros in life insurance and pension plan contributions) was 959,000 euros.

As indicated above regarding the compensation of the inside director, the Company has established a compensation plan for executives tied to meeting three-year (2006-2008) objectives. At 31 December it is pending evaluation and approval. It will be paid, if applicable, during the 2009 fiscal year.

In addition, there are guarantee or indemnification clauses in favour of members of senior management in the event of dismissal. These agreements were approved by the Nominating, Compensation and Corporate Governance Committee, duly notifying the Board of Directors.

The agreements affect two senior managers. These clauses follow standard market practice and cover termination of the employment relationship, providing indemnification of up to two years' salary, unless applicable regulations establish a higher amount.

*(3) Exclusively for the purposes of CNMV Circular 4/2007 of 27 December 2007, this refers to those individuals who manage the Company at the highest level and, consequently, separately from their legal employment relationship with the Company.*



## 5. RISK POLICY



The purpose of the risk policy of the RED ELÉCTRICA Group, approved by the Board of Directors on 24 July 2008, is to establish principles and guidelines to ensure the identification, analysis, evaluation, management and control of significant risks that may affect the group's objectives and activities, on a systematic basis, applying uniform criteria, within the established risk levels.

Within the authority of the Audit Committee is periodic supervision of the internal control systems and risk management, so that the principal risks are appropriately identified, managed and disclosed. The report of the activities of the Audit Committee for the 2008 fiscal year discusses the actions taken by it in this regard during that fiscal year.

Material risks of the RED ELÉCTRICA Group are those that may significantly affect the overall objectives of the RED ELÉCTRICA Group, related to:

- ◀ Creation of value on a sustained basis over time.

The growing generation of profits on a sustained basis must allow appropriate returns to investors and enable the company to implement its strategy.
- ◀ The continuity and quality of supply of energy in the electricity systems.

Achieving this objective involves both the performance of the system operator and the reliability and availability of the transport network.
- ◀ The construction of the infrastructure network for electricity transport necessary to meet future needs.

The subsidiary Red Eléctrica de España, as the single transporter, must design, process and construct the facilities specified by energy planning. This overall objective must be achieved on a cost efficient basis.
- ◀ The compatibility of the foregoing objectives with social and environmental concerns.

This policy sets criteria regarding the acceptable level of risk for each of the indicated overall objectives. They may be summarised in the sense that all material risks threatening achievement of the indicated overall objectives must have low probability/impact values. Action must be taken regarding such risks as do not have low values, to reach that value.

The general guidelines in the risk policy are as follows:

- ◀ Risk management must be fundamentally anticipative, directed also at the medium and long term and taking into account possible scenarios in an ever more globalised environment.
- ◀ Risk management will generally be carried out having regard to the relation between the importance of the risk (probability/impact) and investment and measures needed to reduce it.
- ◀ Notwithstanding the foregoing, activities related to the electrical system must also take into account the impact the risks may have on the electrical system itself.
- ◀ The design of the processes must be based on effectiveness and efficiency criteria, including controls mitigating the risks. They must be structured in the form of systems, with international reference standards (good practices), with periodic verification and improvement.
- ◀ Contingency plans must be established to reduce the impact of material risks.
- ◀ Insurance policy coverage of such losses as may occur.

The most important risks to which the group is exposed, the focus of the risk control system, are:

- a) **Regulatory**, since the principal business activities of the Group are subject to regulation,
- b) **Operational**, basically deriving from its responsibilities within the electricity system and the requirement of care for and protection of the environment,

- c) **Market**, because most revenue, as well as certain expenses, may be influenced by variables such as inflation and interest rates, and
- d) **Business and Credit** (or counterparty), although to a lesser extent due to the lesser weight of the subsidiaries in the overall group and the existing regulation regarding invoicing and collection for transport and operating activities.

The risk control system covers both risks to internal processes and risks to the environment in which it operates, covering all activities carried out by the group, evaluating the impact of each risk on four matters: strategy, the income statement, the electricity system and reputation.

Of all risks monitored by the system, 10% relate to regulatory risks, 75% to operational risks and 15% to business, market or credit risks. These figures are consistent with a group with a parent company the mission of which is to ensure the overall functioning of the electricity system, the high degree of regulation and its solvency, reflected by the ratings of international rating agencies.

## II. Principal resolutions of the 2008 fiscal year related to corporate governance



The principal corporate governance resolutions adopted by the Company in the 2008 fiscal year were as follows:

1. The following resolutions were adopted at the *Board of Directors* meeting held on 17 April 2008:
  - ◀ To approve, after a favourable report from the Nominating, Compensation and Corporate Governance Committee, the Company's Annual Corporate Governance Report for the 2007 fiscal year.
  - ◀ To approve the procedure for remote proxies, voting and information for the Ordinary General Shareholders Meeting for the 2007 fiscal year.
  
2. The following resolutions were separately adopted at the *Ordinary General Shareholders Meeting* held on 22 May 2008:
  - ◀ Approval of the proposal to separate the functions of system operator, electricity transport network manager and transporter into subsidiaries, in accordance with the mandate in Act 17/2007 of 4 July 2007 (point 6 of the agenda).
  - ◀ Amendment of article 1 ("Name and Legal System") and article 2 ("Corporate Purpose") of the Bylaws (point 7.1 of the agenda).
  - ◀ Amendment of article 5 ("Capital"), article 6 ("Share Register") and article 14 ("Quorum") of the Bylaws (point 7.2 of the agenda).
  - ◀ Amendment of article 33 ("Scope of Bylaws") of the Bylaws (point 7.3 of the agenda).
  - ◀ Amendment of the Sole Additional Provision ("Special Rules for Sociedad Estatal de Participaciones Industriales") and repeal of the Transitional Provisions (First and Second) of the Bylaws (point 7.4 of the agenda).
  - ◀ Amendments of the General Shareholders Meeting Regulations to adapt them to the requirements of Act 17/2007 of 4 July 2007, regarding limitations on the rights

of shareholders and voting on matters: Amendment of articles 6.3 (“Limitations”) (point 8.1 of the agenda), 15.8 (“Voting”) (point 8.2 of the agenda), with the two voted on separately by the General Meeting.

- ◀ Approval of the three resolutions proposed (points 9.1, 9.2 and 9.3 of the agenda) to authorise the Board of Directors to make market acquisitions of treasury shares, voting separately on each of them.
- ◀ Approval by separate votes of the six resolutions proposed regarding the election and appointment of directors.
- ◀ Ratification of the Board of Directors resolutions fixing their compensation for the 2007 fiscal year (point 10 of the agenda).
- ◀ Separate reports to the General Meeting on the following matters:
  - Amendments of the Board of Directors Regulations approved at the board meeting of 20 December 2007 (point 12 of the agenda).
  - Summary of Annual Corporate Governance Report of Red Eléctrica de España, S.A. for the 2007 fiscal year (point 13 of the agenda).
  - Items contained in the Management Report related to articles 116 bis of the Securities Market Act (point 14 of the agenda).

The *Board of Directors* at its meeting held on *24 July 2008* approved the self-evaluation report on the operation of the Board of Directors, its committees and its chairman, during the 2007 fiscal year, prepared by the Nominating, Compensation and Corporate Governance Committee.

# Annual Corporate Governance Report

# 02

ANNUAL CORPORATE GOVERNANCE REPORT  
FOR RED ELÉCTRICA CORPORACIÓN S.A.  
FOR THE 2008 FISCAL YEAR,  
IN ACCORDANCE WITH CNMV  
CIRCULAR 4/2007 FORMAT <sup>(1)</sup>

FISCAL YEAR 2008

**Company Name:**

RED ELÉCTRICA CORPORACIÓN, S.A.

**Registered Address:**

Pº Conde de los Gaitanes, 177  
La Moraleja – Alcobendas  
28109 MADRID

*(1) Unless another date is expressly indicated in this report, the content hereof is deemed to refer to 31 December 2008.*



## A - Ownership structure

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

Date of last change	Capital (€)	Number of shares	Number of voting rights
17-05-1999	270,540,000	135,270,000	135,270,000

State whether there are multiple classes of shares with different related rights: YES  NO

Class	Number of shares	Par value per share	Number of voting rights per share	Other rights

All the shares belong to the same class and series and confer the same rights to their owners.

**A.2.** Give details of the direct and indirect owners of significant shareholdings in your company at the fiscal year end, excluding directors:

Name of shareholder	Number of direct voting rights	Number of indirect voting rights(*)	% of total voting rights
State Industrial Ownership Corporation	27,054,000	--	20%

(\*) Through:

Name of direct holder of the shares	Number of direct voting rights	% of total voting rights

Indicate the most relevant movements in the shareholder structure that took place during the fiscal year:

Name of shareholder	Date of transaction	Description of transaction
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**A.3.** Complete the following tables on the members of the company's board of directors who hold company shares:

At 31 December 2008, the direct and indirect shareholding of directors in RED ELÉCTRICA's capital, both in individual and aggregate terms, is provided below:

Name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Luis M <sup>a</sup> Atienza Serna	20,416	--	0.01509
Antonio Garamendi Lecanda	6,710	--	0.00496
Manuel Alves Torres	10	--	0.00000
Rafael Suñol Trepal	20	--	0.00000
M <sup>a</sup> Ángeles Amador Millán	0	--	--
Francisco Javier Salas Collantes	20	--	0.00000
Martín Gallego Málaga	20	--	0.00000
José Rodrigues Pereira dos Penedos	0	--	--
José Folgado Blanco	0	--	--
Arantza Mendizábal Gorostiaga	0	--	--
M <sup>a</sup> Jesús Álvarez González	0	--	--

(\*) Through:

Name of direct holder of the shares	Number of direct voting rights	% of total voting rights
% total of voting rights controlled by board of directors		
0.02005		

Complete the following tables on members of the company's board of directors who hold rights over company stock:

Name of director	Number of direct share options	Number of indirect share options	Equivalent number of shares	% of total voting rights

**A.4.** Give details of any relationships of a family, commercial, contractual or corporate nature, known to the company, between the owners of significant shareholdings, unless the relationships are negligible or arise in the ordinary course of business:

Names of related parties	Type of relationship	Brief description
--	--	--

**A.5.** Give details of any relationships of a commercial, contractual or corporate nature between the owners of significant shareholdings and the company, unless the relationships are negligible or arise in the ordinary course of business:

Names of related parties	Type of relationship	Brief description
--	--	--

The significant shareholder of the Company, SEPI, does not have any significant relationship with the Company and/or its group, or which is outside the Company's ordinary business of a contractual, corporate or business nature.

**A.6.** State whether shareholders agreements affecting the company have been notified to it as provided in art. 112 of the Securities Market Act. If so, briefly describe them and list the shareholders bound by the agreement:: YES  NO

Parties to shareholders agreement	% of capital affected	Brief description of the agreement
-----------------------------------	-----------------------	------------------------------------

At 31 December 2008, the Company is not aware of any agreements or covenants reached by the shareholders, requiring them to adopt a common policy through the concerted exercise of voting rights at the General Meetings, or which restrict or condition the free transferability of their shares.

State whether the company is aware of the existence of concerted actions among its shareholders. If there are, briefly describe them: YES  NO

At the closing date of the 2008 fiscal year, there is no record in the Company of any shareholder agreements or covenants requiring concerted exercise of their voting rights, or of a common policy in company management, with the aim of significantly influencing the Company.

Participants in concerted action	% of capital affected	Brief description of the agreement
--	--	--

If any of the above agreements or concerted actions have been modified or terminated during the fiscal year, expressly so state.

**A.7.** Indicate if there is any individual or legal entity that exercises or may exercise control over the company, within the meaning of article 4 of the Securities Market Act: YES  NO

Name
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**Comments**


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SEPI is the direct owner, at the closing date of the 2008 fiscal year, of a significant interest in the Company, holding 27,054,000 shares that represent 20% of capital. All of the foregoing is for the purposes contemplated in Royal Decree 1362/2007 of 19 October 2007.

There is no individual or legal entity that exercises or may exercise control over the Company, as provided in article 4 of the Securities Market Act.

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

At fiscal year end:

Number of shares held directly	Number of indirect shares (*)	Total % of capital
652,011	--	0.482%

(\*) Through:

Name of direct holder of the shares	Number of shares held directly
	--
<b>Total:</b>	--

Give details, as required under Royal Decree 1362/2007, of any significant changes that have taken place during the fiscal year:

Date of notice	Total shares acquired directly	Total shares acquired indirectly	Total % of capital
19/02/2008	1,366,157	--	1.010%
24/06/2008	1,369,723	--	1.013%
10/10/2008	1,527,358	--	1.129%

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**Gain/(Loss) on treasury shares sold during the period**


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-48

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**A.9. State the conditions and term given by the company in general meeting to the board of directors to acquire or transfer treasury shares.**

The General Shareholders Meeting of the Company held last 22 May 2008 authorised the Board of Directors, as provided in article 75 and related provisions and the First Additional Provision of the Corporations Act, directly or indirectly and to the extent deemed to be advisable under the circumstances, to make market acquisitions of shares of Red Eléctrica de España, S.A. in accordance with the following conditions:

- ◀ The term of the referenced authorisation is 18 months starting on that date.
- ◀ The maximum number of shares to be acquired will not exceed the established legal limit, all of the foregoing provided that the other applicable legal requirements may also be fulfilled.
- ◀ The acquisition may not be made at a price greater than the price on the stock exchange at the time of the acquisition, or at a price less than 50% of the exchange price at that time.
- ◀ The form of acquisition may be a purchase and sale, exchange, or any other business transaction for consideration, as the circumstances may require.
- ◀ The Company's Board of Directors may use all or a part of the treasury shares acquired and those already owned by the Company as provided in the third paragraph of article 75(1) of the Corporations Act for implementation of compensation programmes the purpose of which is direct delivery of shares to employees and inside directors of the company and the companies in its consolidated group.

That meeting expressly revoked authorisation for market acquisition of treasury shares given to the Board of Directors by the General Shareholders Meeting held on 31 May 2007, therefore leaving it without effect.

**A.10.** If applicable, indicate any legal and bylaws restrictions on the exercise of voting rights, as well as the legal restrictions on the acquisition or transfer of equity interests.

State whether there are legal restrictions on the exercise of voting rights: YES  NO

Maximum percentage of voting rights that may be exercised by a shareholder under legal restriction

3%

1% (electricity sector)

State whether there are bylaws restrictions on exercise of voting rights: YES  NO

Maximum percentage of voting rights that may be exercised by a shareholder under a bylaws restriction

3%

1% (electricity sector)

#### Description of legal and bylaws restrictions on exercise of voting rights

Each share gives the right to one vote, any shareholder being entitled to attend the General Meeting, without any required minimum number of shares, as was the case until the Extraordinary General Shareholders Meeting of 17 July 2003, which removed the bylaws requirement of at least 50 shares in order to attend the Meetings.

Various amendments of Act 54/1997 affecting restrictions on voting rights have been introduced by Act 17/2007 of 4 July 2007, amending Electricity Sector Act 54/1997 of 27 November 1997, to adapt it to the provisions of Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity.

Specifically, the second section of the third additional provision of Act 17/2007 establishes new maximum limits on exercise of voting rights, in order to guarantee the independence of a company engaging in regulated activities in the electricity sector that, as provided in Act 54/1997 of 27 November 1997 on the Electricity Sector, constitute an essential service.

As a result thereof, the Bylaws have been amended by resolutions of the Ordinary General Shareholders Meeting of 22 May 2008, to adapt them to this new regulatory situation. Among others, article 5 and the Sole Transitional Provision have been amended. The literal content of the aforesaid articles after amendment is as follows:

#### Article 5.- Capital

1. The capital of the Company is two hundred seventy million five hundred forty thousand (270,540,000) euros, represented by one hundred thirty-five million two hundred seventy thousand (135,270,000) shares, of a single class and series, with par value of two (2) euros each, fully subscribed and paid in, represented by book entries.

2. In accordance with the provisions of the Third Additional Provision of Act 17/2007 and the Electricity Sector Act:

- 1) Unless otherwise permitted by law, the sum of the direct and indirect interests in the Company's capital held by any individual or legal person at no time may be greater than five percent of the Company's capital. These shares may not be pooled for any purpose whatsoever. No shareholder may exercise more than three percent of the voting rights. Those engaging in business in the electricity sector, and the individuals or legal persons that directly or indirectly hold greater than five percent interests therein, may not exercise more than one percent of the voting rights. Furthermore, the total stakes held directly or indirectly by parties carrying out activities in the electricity sector may not exceed forty percent.
- 2) For the purposes of calculating the interest of each shareholder, a specific individual or legal entity, in addition to the shares and other securities owned or acquired by entities belonging to its group, as this term is defined in article 4 of Securities Market Act 24/1988 of 28 July 1988, also is deemed to hold shares or securities owned:
  - a) By persons acting in their own names but on behalf of the former, on a concerted basis or as a part of a decision-making unit, it being understood, absent proof to the contrary, that the members of a legal person's board of directors act on its behalf or in concert therewith.
  - b) By shareholders together with which it exercises control over a controlled entity. In any event, both the "proprietary" ownership of the shares and other securities and voting rights enjoyed for any other reason are taken into account.

3. Without prejudice to the provisions of section 2 of article 6 of these Bylaws, violation of the limits indicated in section 2 of article 5 or those at any time established by applicable regulations will result in the legal consequences specified thereby including, if applicable, imposition of the appropriate sanctions and the provisions of these Bylaws.

The voting rights corresponding to the shares or other securities that, as provided from time to time by current legislation, are in excess of the limit specified in this article, will be in suspense for so long as they do not comply with the limit.

4. As an exception to the general rule, by reason of the special system the Electricity Sector Act applies to SEPI, the interest and voting rights of that company will be governed by the provisions of these Bylaws, except for the provisions of the Sole Additional Provision hereof.

Sole Additional Provision.- Special System for SEPI

- 1) By virtue of the provisions of the Electricity Sector Act, the limitations established in section 2 of the Third Additional Provision of Act 17/2007 will not apply to SEPI. Nor will the limitations established in these Bylaws apply to the shareholding interest in the Company and the voting rights. SEPI in any event will maintain a share interest of not less than 10 percent.
- 2) When a director, being a natural person, holds his office representing the shareholder contemplated in the Ninth Transitional Provision relating to article 34.1 of the Electricity Sector Act, his compensation will be established as provided in the applicable rules on the events of incompatibility for the public sector; notwithstanding the compensation that may be owing to such public shareholder, either because he has been appointed directly as a member of the Board of Directors or because of the services provided to the

Board or its executive committees by the individuals representing such public holder of shares of the capital of the Company, and which exceed those to which they may be personally entitled under such legislation, all the foregoing while, under the Ninth Transitional Provision, such ownership situation is maintained.

In addition, the National Energy Commission is authorised to take legal actions aimed at enforcing the referenced legal limitations. Breach of the established shareholding limitations is a very serious violation of the Electricity Sector Act. Liability is imposed on the individuals or legal persons that own the securities or to which the excess interests are attributable.

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State whether there are legal restrictions on acquisition or transfer of interests in capital:

YES  NO

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**Description of legal restrictions on acquisition or transfer of interests in capital**

The transfer of shares representing capital of Red Eléctrica Corporación, S.A. is free, not subject to any restriction. The electricity sector legislation establishes certain limitations on shareholdings, on the terms discussed above.

As for any other listed entity, acquisition of certain significant interests is subject to notice to the issuer and to the CNMV, as provided in article 53 of Securities Market Act 24/1988 of 28 July 1988, in Royal Decree 1362/2007 of 19 October 2007, and in CNMV Circular 2/2007 of 19 December 2007, which establish the first notice threshold at 3% of capital or voting rights.

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**A.11.** State whether the General Meeting has resolved to adopt neutralisation measures in the event of a public offer for acquisition by virtue of the provisions of Act 6/2007. YES  NO

If so, explain the measures approved and the circumstances under which the restrictions would prove to be ineffective.

## B - Structure of the company's management

### B.1. Board of Directors

#### B.1.1. Description of the maximum and minimum number of directors under the bylaws:

Maximum number of directors	Minimum number of directors
13	9

#### B.1.2. Complete the following table indicating the board members:

Name of director	Representative	Position on the Board	Date of first appointment	Date of last appointment	Election Procedure
Luis M <sup>a</sup> Atienza Serna		Chairman	08/07/04	26/05/05	General Meeting
Antonio Garamendi Lecanda		Member	20/07/99	22/05/08	General Meeting
Manuel Alves Torres		Member	26/10/99	22/05/08	General Meeting
Rafael Suñol Trepát		Member	16/12/04	26/05/05	General Meeting
M <sup>a</sup> Ángeles Amador Millán		Member	26/05/05	26/05/05	General Meeting
Francisco Javier Salas Collantes		Member	28/06/05	26/05/06	General Meeting
Martín Gallego Málaga		Member	28/06/05	26/05/06	General Meeting
José Rodrigues Pereira dos Penedos		Member	22/05/08	22/05/08	General Meeting
José Folgado Blanco		Member	22/05/08	22/05/08	General Meeting
Arantza Mendizábal Gorostiaga		Member	22/05/08	22/05/08	General Meeting
María Jesús Alvarez González		Member	22/05/08	22/05/08	General Meeting
<b>Total Number of Directors</b>					
11					

Give details of the directors who left the board of directors during the period:

Name of director	Status of departing director	Departure date
Pedro Rivero Torre	Independent Outside	22/05/08
Juan Gurbindo Gutierrez	Proprietary Outside (SEPI)	22/05/08
José Riva Francos	Independent Outside	22/05/08
José Manuel Serra Peris	Independent Outside	22/05/08

## B.1.3. Complete the following tables on the board members and their individual status:

<b>INSIDE DIRECTORS</b>		
<b>Name of director</b>	<b>Nominated by (committee)</b>	<b>Office in the company</b>
<b>Luis M<sup>a</sup> Atienza Serna</b>	Nominating, Compensation and Corporate Governance	Chairman
<b>Total number of inside directors</b>		<b>% total on Board</b>
1		9.09%
<b>PROPRIETARY OUTSIDE DIRECTORS</b>		
<b>Name of director</b>	<b>Nominated by (committee)</b>	<b>Name of significant shareholder represented or that nominated the director</b>
<b>Manuel Alves Torres</b>	Board of Directors since, at the time, the Nominating, Compensation and Corporate Governance Committee did not exist	State Industrial Ownership Corporation (SEPI)
<b>Rafael Suñol Trepas</b>	Nominating and Compensation Committee	State Industrial Ownership Corporation (SEPI)
<b>María Jesús Álvarez González</b>	Nominating, Compensation and Corporate Governance Committee	State Industrial Ownership Corporation (SEPI)
<b>Total number of proprietary directors</b>		<b>% total on Board</b>
3		27.28

## INDEPENDENT OUTSIDE DIRECTORS

### Name of director

**Antonio Garamendi Lecanda**

#### Background

8 February 1958.

Entrepreneur. Law Degree, Universidad de Deusto.

#### Professional Career

Formerly:

General Delegate of Equitativa, S.A. in Vizcaya.

Managing Director of Bankoa, S.A. Insurance Brokerage Company.

Chairman, Handyman, S.L.

Chairman of the "Negocios de Comunicación" Group (La Gaceta de los Negocios, Dinero magazine, Intereconomía Radio and OTR News Agency).

Director, Babcock & Wilcox Española, S.A.

Director, Albura, S.A. (Red Eléctrica de Telecomunicaciones)

Director, Tubos Reunidos, S.A.

Member, Strategic Committee, Grupo Alta Gestión, S.A.

Chairman, Spanish Confederation of Young Entrepreneurs (CEAJE).

Chairman, Business Creation Commission, CEOE.

Member, Property Association of Vizcaya

Board member, Guggenheim Museum

Vice Chairman, Entel Ibai, S.A.

Currently:

Chairman, Galea Empresarial, S.L.

Chairman, Palacio de Moronati, S.L.

Managing Director, Iniciativas de Comunicación Económica, S.A. (ICESA)

Insurance Broker. Willis Iberia, S.A.

Member of the Strategic Committee of Sodexho Pass, S.A. Group

Chairman, Energy Committee, CEOE. Director, CEOE

Member and Treasurer, Confemetal and the Formetal Foundation.

Committee Member, Institute for Economic Studies (IEE)

Member, Board of Directors, Empresarial de Vizcaya (CEBEK)

Member of the Executive Committee of the Vizcaya Federation of Metal Companies.

Member, Chamber of Commerce of Vizcaya.

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**M<sup>a</sup> Ángeles Amador Millán**

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**Background**

10 October 1949.

Law Degree, Universidad Complutense de Madrid

**Professional Career**

Formerly:

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

Representative of the Governing Board of the Madrid Bar Association.

Assistant Secretary of the Ministry of Health and Consumer Affairs.

Minister of Health and Consumer Affairs.

Member of Congress representing Segovia.

Spokeswoman for Health Matters in Parliament for Grupo Parlamentario Socialista.

Member of Congress representing Madrid.

Vice Chairman of the Constitutional Commission of Congress.

Currently:

Practising attorney.

Member of the Governing Board of the Madrid Bar Association.

Board member, Fundación Arte y Derecho.

Board member, ICO Foundation.

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**Francisco Javier Salas Collantes**

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**Background**

6 March 1948.

Degree in Economics, specialising in Business Economics.

**Professional Career**

Formerly:

Specialist in credit analysis in the International Division of Manufacturers Hanover Trust Co. (New York).

Manager of Economic and Financial Planning and Manager of Economy and Finance, Empresa Nacional del Uranio (ENUSA). Financial Manager of Instituto Nacional Industria (I.N.I.) as Financial Manager.

General Corporate Manager, responsible for the following I.N.I. offices: Finance, Planning and Control, Technology and Investment.

Chairman, I.N.I. and Teneo.

Chairman, Iberia, Líneas Aéreas España, while also Chairman, I.N.I. and Teneo.

Currently:

Founding member and manager of Saga Servicios Financieros (Management and M&A Consultants).

Director of the following companies: I&F Ingeniería and Fachadas Holding Group, S.L. (chairman), Telvent and chairman of the Audit Committee, Ged Capital Development, S.A., Sgecr, Ged Iberian Private Equity, S.A., Sgecr and Prointec, S.A., REE and chairman of its Audit Committee.

Member of the Advisory Board (Spain) of Young & Rubicam, S.L.

Chairman of Fundación Entorno, Empresa y Medioambiente. Board member, Instituto de Cuestiones Internacionales y Política Exterior (Incipe).

Board member, APMIB Foundation (Vice Chairman).

Member of the Advisory Board and of the Scientific Academic Committee of the Fundación de Estudios Financieros

### Martín Gallego Málaga

#### Background

19 June 1940.

Doctorate in Mining Engineering. Specialty: Power. Universidad Politécnica de Madrid.

Degree in Economics, Universidad Complutense de Madrid.

Certificate in Industrial Project Assessment, World Bank, Washington D.C.

Specialist in Economic Development and International Aid, Instituto Complutense de Estudios Internacionales de Madrid.

#### Professional Career

Formerly:

General Secretary for Energy and Mineral Resources, Ministry of Industry and Energy.

Chairman, Nuclear Energy Board (currently CIEMAT), Institute for Energy Diversification and Conservation (IDAE), Spanish Geological and Mining Institute (ITGM) and Coordinating Committee of Energy Sector Research Offices.

Chairman of Hidroastur, S.A. and Grupo Minero de Wolframio La Parrilla, S.A.

Consultant for Endesa, Chase Manhattan Bank, Campsa, Price Waterhouse, Hunosa and Ofico.

Expert and Consultant for the European Communities Commission (Brussels) and the World Bank (Washington).

General Corporate Manager for International Trade and Diversification, Grupo Endesa.

Member of following Boards of Directors: Instituto Nacional de Hidrocarburos, Campsa, Banco Saudí Español, Gas Andalucía, S.A., Tejo Energía, S.A., Electricidad de Caracas, S.A., Cable y Televisió de Catalunya, S.A., Cable y Comunicaciones Madrid, S.A., Aguas de Barcelona, Internacional del Agua, S.A. and managing director, Endesa Desarrollo, S.A. and Grupo Eléctrico de Telecomunicaciones, S.A.

Expert Director of the Spanish Economic and Social Council.

Director for Industry and Energy, Spanish Embassy in Washington.

Currently:

Coordinator, Foundation for Energy Studies  
 Consultant in the School of Industrial Organisation  
 Member of the Governing Council, CIEMAT

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### **José Rodrigues Pereira dos Penedos**

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#### **Background**

8 October 1945.

Degree in electrotechnical engineering, Instituto Superior Técnico.

Studies in distribution planning with Electricité de France, 1978.

Studies in senior management, AESE, 1988/1989.

Studies in strategic management, USW- Universitataseminar Der Wirtschaft, Germany, 1994.

#### **Professional Career**

Formerly:

Electricity Network Project, Exploration and Planning Engineer; Director-Direcção Operacional de Distribuição Centro. Commercial Centre Manager.

Administrator of Sociedade de Eficiencia Energética, S.A. (ENERFIN).

Administrator, member of the Projects Committee and chairman of the Board of Directors of ECONOLER, S.A.  
 Board Member of HIDRORUMO, S.A.

Secretary of State for Energy.

Secretary of State for Industry and Energy.

Secretary of State for National Defence.

Vice Chairman of "Comissão Parlamentar de Economia, Finanças e Plano".

Member, Comissão Parlamentar de Defesa.

Vice Chairman of the Comissão de Inquérito GALP, ENI, IBERDROLA.

Chairman of the Board of Directors of Rede Eléctrica Nacional, S.A. (REN).

Chairman of the Board of Directors of RENTELECOM-Comunicações, S.A.

Chairman of the Associação Portuguesa da Energia.

Board Member of GALP ENERGIA.

Board Member of GDP, S.A.

He also has participated in various forums and international organisations in the electricity sector.

Currently:

Chairman of Redes Energéticas Nacionais, SGPS, S.A. (REN).

Chairman since 2006 of the Union for the Co-ordination of Transmission of Electricity (UCTE).

Chairman since 2004 of the Conseil International des Grands Réseaux Electriques (CIGRÉ).

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**José Folgado Blanco****Background**

3 April 1944.

Degree in economics with an extraordinary prize upon graduation.

Doctorate in Economics, Universidad Autónoma de Madrid.

**Professional Career**

Formerly:

Manager of the economics department of the CEOE.

Member of the Economic and Social Board representing business organisations.

Secretary of State for Energy, Industrial Development and Small and Medium-Sized Enterprises. Ministry of Economy.

State Secretariat for Budget and Expenditure. Ministry of Economy and Finance, since May 1996.

Secretary of State for Economy, Energy and Small and Medium-Sized Enterprises. Ministry of Economy, representative of the province of Zamora in the Congress and Vice Chairman of the Economy and Finance Committee.

Currently:

Chaired Professor of Public Finance and Tax Systems at the Universidad Autónoma de Madrid.

Mayor of Tres Cantos (Madrid) since June 2007.

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**Arantza Mendizábal Gorostiaga****Background**

22 February 1950.

Degree in economics.

Doctorate in economics.

Professor of Applied Economics.

**Professional Career**

Formerly:

Professor and researcher regarding industrial and technological policy.

Acting rector of the Universidad del País Vasco (UPV-EHU).

Professor, visiting fellow at St. Anthony's College (Oxford).

Member of Congress.

Spokeswoman for the Industry, Tourism and Trade Committee of the Congress.

Member, as a congresswoman, of the Economy and Finance Committee of the Congress.

Member, as a congresswoman, of the Budget Committee.

Currently:

Professor of Applied Economics at the School of Economics and Director of the European Documentation Centre of the Universidad del País Vasco.

Total number of independent directors	% total on Board
7	63.63%

#### OTHER OUTSIDE DIRECTORS

Name of director	Nominated by (committee)
--	--
Total number of outside directors	% total on Board
--	--

State the reasons they cannot be deemed to be proprietary or independent and their relationships, whether with the company or its directors or with its shareholders:

Name of director	Reasons	Company, executive or shareholder with which the relationship is maintained
--	--	--

Indicate any changes occurring in the period in the type of each director:

Name of director	Date of change	Previous classification	Current classification
--	--	--	--

**B.1.4.** If applicable, explain the reasons proprietary directors have been appointed at the request of shareholders whose share interests are less than 5% of capital:

Name of shareholder	Justification
--	--

State whether any formal requests for membership on the board have not been honoured for shareholders whose share interests are not less than those of others upon whose request proprietary directors have been appointed. If applicable, explain the reasons the requests have not been honoured: YES  NO

Name of director	Explanation
--	--

**B.1.5.** State whether any director has resigned his position before the end of his term of office, whether that director explained his reasons to the board and if so in what way, and, if he did so in writing to the entire board, below explain at least the reasons given by that director:

Name of director	Reason for resignation
--	--

**B.1.6.** Indicate the powers, if any, entrusted to the managing director(s):

<b>Name of director</b>
Luis M <sup>a</sup> Atienza Serna
<b>Brief description</b>
The meeting of the Company's Board of Directors held on 29 July 2004 unanimously resolved, as proposed by the Nominating and Compensation Committee: <i>"To delegate to the chairman of the Board of Directors, under and in accordance with the provisions of articles 141 of the current Corporations Act, 149 of the Commercial Register Regulations, 22 of the Bylaws and 5 of the Board of Directors Regulations, all authority of the Board of Directors that may be delegated by law and pursuant to the bylaws".</i>

**B.1.7.** Identify any members of the board who hold the position of director or executive in other companies belonging to the group of the listed company:

Name of director	Name of the group entity	Position
Luis M <sup>a</sup> Atienza Serna	Red Eléctrica Internacional, S.A.U.	Joint Administrator
Luis M <sup>a</sup> Atienza Serna	Red Eléctrica del Sur, S.A. (REDESUR)	Chairman of the Board of Directors
Luis M <sup>a</sup> Atienza Serna	Transportadora de Electricidad, S.A. (TDE)	Chairman of the Board of Directors

**B.1.8.** Describe any Company directors who are members of the boards of directors of other companies other than in your group listed on official Spanish securities markets, of which the company has been notified:

Name of director	Name of listed entity	Position
D. Rafael Suñol Trepal	INYPSA Informes y Proyectos, S.A.	Director

**B.1.9.** State and if applicable explain whether the company has established rules regarding the number of committees of which its directors may be members: YES  NO

#### Explanation of the rules

Article 16.1 e) of the Board of Directors Regulations, as a part of the basic responsibilities of the Nominating, Compensation and Corporate Governance Committee in respect of appointments and departures of directors, provides for the evaluation of the time and dedication necessary for directors to perform their task with appropriate quality and efficiency, also evaluating whether a position as a director is compatible with serving on other management bodies of listed companies

In this regard, the Nominating, Compensation and Corporate Governance Committee, if applicable, analyses and authorises the members of the Board of Directors of Red Eléctrica to join boards of directors of other companies.

During the 2008 fiscal year the Nominating, Compensation and Corporate Governance Committee was not asked to authorise any director to join other boards of directors.

**B.1.10.** Regarding recommendation number 8 of the Uniform Code, state the general policies and strategies of the company that the full board has reserved for its approval:

	Yes	No
Investment and financing policy	X	
Setting the structure of the group of companies	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
Strategic or business plan, as well as annual management objectives and budget	X	
Policy regarding compensation and evaluation of performance of senior management	X	
Risk control and management policy, as well as periodic follow-up of internal reporting and control systems	X	
Dividend policy, as well as treasury shares and, in particular, limits thereon	X	

**B.1.11.** Complete the following tables on the aggregate compensation of directors during the fiscal year.

a) Compensation earned as director of the reporting company<sup>(2)</sup>:

Compensation category	In thousands of euros
Fixed compensation	388
Variable compensation	1,253
Per diems	833
Amounts per bylaws	
Stock options and/or other financial instruments	
Others	12
<b>TOTAL</b>	<b>2,486</b>

Other benefits	In thousands of euros
Advances	
Loans granted	
Pension Funds and Plans: Contributions	12
Pension Funds and Plans: Liabilities incurred	
Life insurance premiums	
Guarantees established by the company in favour of directors	
<b>TOTAL</b>	<b>12</b>

(2) Section G of this report includes this information, broken down by director.

**b) Compensation earned as a director and/or senior executive of other companies within the Group:**

Compensation category	In thousands of euros
Fixed compensation	
Variable compensation	
Per diems	
Amounts per bylaws	
Stock options and/or other financial instruments	
Others	
<b>TOTAL</b>	

Other benefits	In thousands of euros
Advances	
Loans granted	
Pension Funds and Plans: Contributions	
Pension Funds and Plans: Liabilities incurred	
Life insurance premiums	
Guarantees established by the company in favour of directors	

**c) Total compensation by type of director:**

Type of director	By company	By group
Inside	782	
Proprietary Outside	516	
Independent Outside	1,188	
Other Outside		
<b>TOTAL</b>	<b>2,486</b>	

**d) Directors' compensation based on profit attributable to the parent company<sup>(3)</sup>:**

Total directors' compensation (in thousands of euros)	Total directors' compensation / profits allocated to controlling Company (as a %)
2,486	0.869

<sup>(3)</sup> The profits obtained by the RED ELÉCTRICA Group and attributed to the parent company, in the 2008 financial year, amounted to 286,119,000 euros (243,049,000 euros in 2007).

**B.1.12.** Name the members of senior management who are not inside directors, and state the total compensation they earned during the fiscal year<sup>(4)</sup>:

Set forth below is the information regarding members of senior management that provide services within the Red Eléctrica Group:

Name	Position
Carlos Collantes Pérez-Ardá	General Manager of Transmission
Esther M <sup>a</sup> Rituerto Martínez	General Manager of Administration and Finance
Alberto Carbajo Josa	General Manager of Operations
<b>Total senior management compensation (in thousands of euros)</b>	
959 <sup>(5)</sup>	

**B.1.13.** State in overall terms whether there are any guarantee or golden parachute clauses in favour of senior managers, including inside directors, of the company or its group in the event of dismissal or a change of ownership. State whether such clauses must be notified to and/or approved by the management bodies of the company or its group:

Number of beneficiaries		
3		
	Board of Directors	General Meeting
<b>Body authorising the clauses</b>	X	
		YES      NO
<b>Was the General Meeting informed of the clauses?</b>		X

There are guarantee or indemnification clauses in favour of the inside director to cover dismissals or changes of control. This agreement was proposed by the Company's Nominating, Compensation and Corporate Governance Committee and approved by its Board of Directors.

<sup>(4)</sup> Exclusively for the purposes of CNMV Circular 4/2007 of 27 March 2007, this refers to those individuals who manage the company at the highest level and, consequently, separately from any employment or legal relationship with the company.

<sup>(5)</sup> 29,000 euros of contributions to life insurance and pension plans are included in this amount.

Said clauses follow standard market practice and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless applicable regulations provide for a higher amount.

In addition, there are guarantee or indemnification clauses in favour of members of senior management in the event of dismissal. These agreements were approved by the Nominating, Compensation and Corporate Governance Committee, duly notifying the Board of Directors.

The agreements affect two senior managers. These clauses follow standard market practice and cover termination of the employment relationship, providing indemnification of up to two years' salary, unless applicable regulations establish a higher amount.

**B.1.14. Describe the process for setting directors' compensation and cite the relevant clauses of the bylaws.**

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**Process for setting directors' compensation and bylaws clauses**

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Provisions regarding compensation of the members of the Board of Directors are established in article 20 and in the Single Additional Provision of the Bylaws, as well as in article 27 of the Board Regulations. These provisions are set forth below:

**I. Bylaws:**

**Article 20:**

*"...The compensation of the Board of Directors will consist of a fixed monthly amount, per diems for attendance at the meetings of the management bodies and a share in the profits obtained by the Company. The aggregate yearly compensation for the entire Board and for the above categories will be 1.5 per cent of the net profits of the Company, approved by the General Meeting. The above compensation is in any event the maximum amount that may be paid to the Board, which will distribute such amount among the above categories and among the directors, in the manner, at the time and in the proportion it may freely establish. Pursuant to article 130 of the Corporations Act, compensation in the form of profit sharing may only be received by the directors after the mandatory reserve and the reserve established by the bylaws have been covered and after a minimum dividend of 4% has been paid to the shareholders.*

*Compensation consisting of the delivery of shares or options on shares or indexed to the value of the shares will require a General Shareholders Meeting resolution, stating the number of shares that are delivered, the exercise price of the options, the value of the shares taken as a reference and the term of such compensation system.*

*The compensation contemplated in this article will be compatible with and independent from the salaries, compensation, indemnification, pension or compensation of any kind established in general or specifically for those members of the Board of Directors who hold an employment (ordinary or special senior executive) or service relation with the Company, which relations will be compatible with the status of member of the Board of Directors...".*

Sole additional provision, second paragraph:

*"When a director, being a natural person, holds his office representing the shareholder contemplated in the Ninth Transitional Provision relating to article 34.1 of the Electricity Sector Act, his compensation will be established as provided in the applicable rules on the events of incompatibility for the public sector; notwithstanding the compensation that may be owing to such public shareholder, either because he has been appointed directly as a member of the Board of Directors or because of the services provided to the Board or its executive committees by the individuals representing such public holder of shares of the capital of the Company, and which exceed those to which they may be personally entitled under such legislation, all the foregoing while, under the Ninth Transitional Provision, such ownership situation is maintained".*

## **II. Board Regulations (article 27):**

*"1. Directors will be entitled to obtain such compensation as is established by the Shareholders Meeting and by the Board of Directors in accordance with the provisions of the Bylaws and those contained in these regulations*

*2. The compensation policy, as approved by its Board of Directors, should specify at least the following points:*

- a) The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to,*
- b) Variable components, in particular:
 
  - i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed compensation items.*
  - ii) Performance evaluation criteria used to calculate entitlement to any compensation.*
  - iii) The main parameters of and basis for any system of annual bonuses or other non-cash benefits.*
  - iv) An estimate of the sum total of variable payments arising from the compensation policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.**

*They also should include technical safeguards to ensure variable compensation reflects the professional performance of the beneficiaries and not simply the general progress of the markets or the Company's sector, or other circumstances of this kind.*

- c) The principal characteristics of pension systems, with an estimate of their amount or annual equivalent cost.*
- d) Conditions that must be included in contracts of those exercising senior management functions as inside directors, including term, notice terms and any other clauses regarding signing bonuses, as well as indemnification for early termination of the contractual relationship between the Company and the inside director.*

3. *Compensation in the form of Company shares, on the terms authorised by the General Meeting, variable compensation tied to Company earnings and pension systems should be limited to inside directors.*
4. *In the case of compensation linked to Company earnings, deductions should be computed for any qualifications stated in the outside auditor's report.*
5. *Directors' compensation will be transparent. To this end, the Nominating, Compensation and Corporate Governance Committee will prepare an annual report on director compensation, including:*
- a) A breakdown of the compensation obtained by each company director, to include where appropriate:*
- i) Participation and attendance fees and other fixed director payments.*
  - ii) Additional compensation for acting as a member of a board committee;*
  - iii) Any payments made under profit-sharing or bonus plans, and the reason they were granted.*
  - iv) Contributions on behalf of inside directors to defined-contribution pension plans, or any increase in the vested rights of inside directors in the case of contributions to defined-benefit plans.*
  - v) Any severance packages agreed or paid.*
  - vi) Any compensation they receive as directors of other companies in the group.*
  - vii) The compensation inside directors receive in respect of their senior management positions.*
  - viii) Any category of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be considered a related party transaction or when its omission would detract from a true and fair view of the compensation received by the director.*
- b) An individual breakdown of deliveries to inside directors of shares, on the terms authorised by the General Meeting.*
- c) Information on the ratio in the year of the compensation obtained by inside directors to the company's profits, or some other measure of enterprise results.*

Indicate whether the following decisions are reserved to the full board:

	YES	NO
On the proposal of the company's chief executive, the appointment and removal of senior officers and their indemnity clauses	X	
Directors' compensation and, in the case of inside directors, the additional consideration for their management duties and other contract conditions	X	

**B.1.15.** State whether the board of directors approves a detailed compensation policy and specifies the matters addressed by it: YES  NO

	YES	NO
The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to	X	
Variable components of compensation	X	
The principal characteristics of pension systems, with an estimate of their amount or annual equivalent cost	X	
The conditions to apply to the contracts of inside directors exercising senior management functions. Among them	X	

**B.1.16.** State whether the board submits a report on the directors' compensation policy to the advisory vote of the General Shareholders Meeting, as a separate point on the agenda. If applicable, explain the elements of the report regarding the compensation policy approved by the board for future years, the most significant changes in that policy by comparison with the policy applied during the fiscal year, and an overall summary of how the compensation policy was applied during the fiscal year. Describe the role of the Compensation Committee and, if outside advisors have been used, identify the outside consultants engaged: YES  NO

#### Matters addressed by the compensation policy report

Red Eléctrica's compensation policy report is prepared following the recommendations of the Conthe Code, section 40, and the European Recommendation of 14 December 2004. Resolutions approving the Company's compensation policy are submitted for approval of the General Shareholders Meeting. Currently both the compensation policy report and the resolution to be proposed to the General Meeting regarding Board of Directors compensation are in process of preparation (together with the other proposals), to be submitted to the Board of Directors and thereafter presented to the General Shareholders Meeting.

Notwithstanding the foregoing, it may be stated that the report, as is customary, first describes the bylaws and regulatory framework governing board compensation, as indicated in section B.1.14 above, which establish the compensation categories and criteria.

The report will cover the resolutions the Board of Directors adopted at the meeting held on 7 February 2008 to fix the final compensation for the 2007 fiscal year, significantly below the established bylaws limits, and at the meeting held on 18 December 2008, resolving to propose to the General Shareholders Meeting that final compensation of the board for the 2008 fiscal year be frozen at the same amount as for the 2007 fiscal year, continuing with the policy begun in 2004 of reducing the impact of board compensation on group results.

### Role of Compensation Committee

The policy for applying bylaws compensation criteria was proposed by the Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors, without prejudice to subsequent submission for approval of the General Shareholders Meeting.

The policy was established by that committee based on in-depth analysis of the recommendations in the Conthe Code starting in 2006. The purpose was to adjust the director compensation system to best corporate governance practices.

During the 2008 fiscal year the committee met 9 times. In large part it addressed compensation matters for the Company's board and senior management, as indicated in section G of this report.

	YES	NO
Has outside advice been used?		x
Identity of outside consultants		x

**B.1.17.** Give details of the directors, if any, who are also directors, executives or employees of companies that own significant shareholdings in the listed company and/or other companies in its group, as applicable.

Name of director	Name of significant shareholder	Position
Manuel Alves Torres	State Industrial Ownership Corporation (SEPI)	Manager of Planning and Control and a member of its Management Committee
María Jesús Álvarez González	State Industrial Ownership Corporation (SEPI)	Manager of Economy and Finance and member of its Management Committee

Give details of any significant relationships, other than those contemplated in the preceding paragraph, between members of the board of directors and companies owning significant shareholdings in the reporting company and/or companies in its group:

Name of related director	Name of related significant shareholder	Description of relationship
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**B.1.18.** State whether there was any amendment of the board regulations during the fiscal year:

YES  NO

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**Description of amendments**

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**B.1.19.** Describe the procedures for the appointment, re-election, evaluation and removal of directors. Specify the competent bodies, the formal steps to be taken and the criteria to be used in each procedure.

**1. Appointment and re-election.**

Article 19 of the Board Regulations provides that directors are to be appointed by the General Meeting or by the Board of Directors by way of cooption. The Nominating, Compensation and Corporate Governance Committee must report in advance on proposed appointments of directors, including by way of cooption. The Board of Directors will endeavour, within the scope of its authority, to ensure that the candidates elected are people of high solvency, competence and experience, as provided in article 20 of the Regulations.

As provided in article 21 of the Regulations, directors will serve for the term contemplated in the Bylaws. Proposals for appointment or re-election of directors sent by the Board to the General Shareholders Meeting, as well as provisional appointments by the Board itself, will be approved by it:

- i) On proposal of the Nominating, Compensation and Corporate Governance Committee, in the case of independent directors.
- ii) Subject to a report from the Nominating, Compensation and Corporate Governance Committee in all other cases.

Article 20 of the bylaws establishes a four-year term of office for directors. They may be re-elected. As provided in article 7 of the Board Regulations, independent directors may not remain as such for a continuous period of more than twelve years.

## 2. Evaluation of directors.

During the 2006 fiscal year, through what was then called the Nominating and Compensation Committee, the Company's Board of Directors initiated a process of self-evaluation of its internal operation, and operations of the two committees, the chairman of the Board of Directors and the directors. This process concluded during the 2007 fiscal year.

During 2008 the self-evaluation process was carried out in light of the recommendations in the Uniform Good Governance Code of Listed Companies ("Conthe Code"). In light of the experience acquired by the Company, in this instance it has been deemed to be appropriate for the self-evaluation process to be undertaken by the board itself.

The chairwoman of the Nominating, Compensation and Corporate Governance Committee has coordinated the process with the active participation of the chairman of the Board of Directors and the chairman of the Audit Committee. All members of the board have actively cooperated in the process.

The Board of Directors at its meeting held on 24 July 2008 approved the self-evaluation report on the operation of the Board of Directors, its committees and its chairman, during the 2007 fiscal year, prepared by the Nominating, Compensation and Corporate Governance Committee.

A new process of annual self-evaluation of the Board of Directors began at the end of the 2008 fiscal year.

## 3. Removal.

Article 22 of the Board Regulations provides that directors will relinquish their directorships at the ends of the terms for which they were appointed or when so decided by the General Meeting in exercise of the authority conferred upon the General Meeting by law or the bylaws. The Board of Directors may not propose the removal of an independent director prior to completion of the term of office specified in the bylaws for which the director was appointed, except for just cause and after a report from the Nominating, Compensation and Corporate Governance Committee.

Also, the directors must tender their positions to the Board of Directors and, if it deems it to be appropriate, resign, in the cases contemplated in article 22.2 of the Board Regulations that are listed in section B.1.20 below

Article 22.3 of the Board Regulations provides that committee members will leave office when they relinquish their directorships.

When a director ceases to serve before the end of his term of office, by reason of resignation or otherwise, he will explain the reasons in a letter sent to all members of the Board, the matter being covered by the Annual Corporate Governance Report, as provided in article 22.4 of the Board Regulations.

**B.1.20. Indicate any events in which directors are forced to resign.**

Article 22.2 of the Board Regulations contemplates that directors will place their positions at the disposal of the Board of Directors and will, if the Board deems appropriate, tender their formal resignations, in the following cases:

- a) When they reach 70 years of age.*
- b) When they are subject to any of the grounds of incompatibility or prohibition provided for by law.*
- c) When they are convicted of an offence or penalised in disciplinary proceedings for a serious or very serious infringement conducted by the supervisory authorities of the securities, energy and telecommunications markets.*
- d) When they have seriously breached their obligations as directors.*
- e) When they leave executive positions with which their appointment as director was associated.*
- f) When their continued presence on the Board endangers the Company's interests, in particular in respect of section 30.4 of these regulations, and the Board so finds with the favourable vote of two thirds of its members.*

*If a director is indicted or tried for any of the crimes referred to in article 124 of the Corporations*

*Act, the Board will review the matter as soon as possible, and in light of the particular circumstances will decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All of the foregoing will be covered by the Annual Corporate Governance Report.*

*g) In the case of a proprietary director, when the shareholder whose shareholding interest 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”.*

**B.1.21. Explain if the functions of chief executive officer and chairman of the board of directors are performed by the same individual. If so, describe the measures taken to limit the risks deriving from the concentration of power in the hands of one person: YES  NO**

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#### **Measures taken to limit risks**

Article 25 of the Bylaws states that the chairman of the board is the chairman of the Company and of its governing and management bodies.

Furthermore, he is the person responsible for senior management as well as fully representing it in all matters, further to powers delegated from the board.

The chairman has the power to adopt such emergency measures as he deems appropriate to the interests of the Company, but must immediately report on such measures to the Board of Directors. All of the foregoing is without prejudice to regular reporting to the board at ordinary meetings of the management carried on in different areas of the Company, requesting, as pertinent, approvals of the resolutions presented.

In particular, under the provisions of article 5.6 of the Board of Directors Regulations, the board retains "direct exercise of the following responsibilities on a nondelegable basis, except for those contemplated in letters b) and c) below, which may be adopted in the event of urgency by the chairman of the Company, thereafter to be ratified by the board, without prejudice to the validity of the actions as against third parties by virtue the provisions of article 129 of the Corporations Act;

*a) Approval of the general policies and strategies of the Company, in particular:*

- i) Approval of the strategic or business plan for the Company and its group, as well as the annual budget and management objectives.*
- ii) Approval of investment and financing policy.*
- iii) Approval of the structure of the group of companies.*
- iv) Approval of corporate governance policy.*
- v) Approval of corporate social responsibility policy.*
- vi) Approval of policy regarding compensation and evaluation of performance of senior management.*

vii) *Approval of the policy for control and management of the principal risks of the Company and the group, and review and periodic follow-up regarding the systems for internal control, prevention and reporting.*

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

- The various kinds of risk (operating, technological, financial, legal, reputation, etc.) faced by the Company, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks.*
- If applicable, setting the risk level the Company deems to be acceptable.*
- The measures contemplated for mitigating the impact of the identified risks, should they materialise.*
- The internal reporting and control systems to be used to control and manage the referenced risks, including contingent liabilities and off-balance-sheet risks.*

viii) *Approval and, if applicable, proposal to the Shareholders Meeting of the dividend policy and the treasury share policy, in particular the limits thereof.*

ix) *The authority specifically contemplated in these regulations.*

b) *The following decisions:*

- i) Directors' compensation and, in the case of inside directors, the additional consideration for their management duties and other contract conditions.*
- ii) The financial information listed companies must periodically disclose.*
- iii) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders Meeting.*
- iv) The creation or acquisition of interests in special purpose vehicles or entities resident in countries or territories that are treated as tax havens, and also any transactions and operations that could impair the transparency of the group.*

c) *Related party transactions, in accordance with the regulations in effect from time to time, after a report from the Nominating, Compensation and Corporate Governance Committee.*

*If the related party transaction involves a director, in addition to not exercising or delegating his right to vote, the director will leave the meeting while the Board of Directors deliberates and votes on it, after having reported to the board regarding the transaction.*

*Board of Directors authorisation will not be required for transactions excluded or excepted under applicable regulations.*

d) *Annual evaluation of:*

- i) The quality and efficiency of the Board's operations and the chairman's performance of his duties, based on a report from the Nominating, Compensation and Corporate Governance Committee.*
- ii) The performance of its committees on the basis of the reports furnished by them".*

To all of the foregoing it is appropriate to add that the existence of the Audit Committee and the Nominating and Compensation Committee, entirely composed of members of the Board of Directors specialised in matters

within their sphere of responsibility, reinforces the specific control exercised over the basic and strategic responsibilities of the Board of Directors, which in no event will be performed exclusively by the chairman.

State, and if so explain, whether rules have been established allowing an independent director to request the call of board meetings or the inclusion of new points on the agenda to coordinate and give voice to the concerns of outside directors and to lead evaluation by the Board of Directors

YES  NO

#### Explanation of the rules

Notwithstanding the foregoing, it is the customary practice that directors may without limitation request that new points be included on the agenda of board meetings. In this regard, under article 17 of the Board Regulations three directors may call a board meeting.

Therefore, any director may request the call of a board meeting, and if jointly requested in writing by three directors, independently of their category, the Bylaws and the Board Regulations provide that the board must meet. Thus greater flexibility is given to the call of board meetings.

Also, leading the evaluation process is expressly delegated to the Nominating, Compensation and Corporate Governance Committee.

**B.1.22. Are supermajorities, other than the statutory majorities, required for any kind of decision?**

YES  NO

Article 3.4 of the Board of Directors Regulations provides that, to be valid, any amendment of said Regulations will require approval by a two thirds majority of the directors attending.

Describe how resolutions of the Board of Directors are adopted, stating at least the minimum quorum and the type of majority required for the adoption of resolutions:

Type of resolution	Adoption of resolutions	
	Quorum	Type of Majority
Any resolution, with the exception of amendment of the Board Regulations	One half plus one of directors present personally or by proxy	Simple

There are no provisions for resolutions that require a supermajority for their adoption, apart from the specific ones contemplated in the applicable law and in the event of amendment of the Board Regulations.

Except in cases where other quorums for attendance have been specifically established, the board will be validly constituted with the attendance of at least half plus one of its members, present either personally or by proxy. If there is an odd number of directors, then a quorum will be present with the attendance of the whole number of directors immediately over half.

Article 21 of the Bylaws establishes that each director may give a proxy to another director, in writing and specifically for each meeting, so that he may be present and vote for him in the meetings of the Board of Directors.

The chairman will organise the discussion, ensuring and encouraging the participation of all directors in the deliberations of the body, and will submit the matters for vote when he deems them to have been sufficiently debated. Each director, present personally or by proxy, will have one vote.

Article 21 of the Bylaws and article 18 of the Board Regulations establish that resolutions will be adopted by majority vote, unless the law requires that resolutions be adopted by a higher majority or in the aforesaid case of amendment of the Board of Directors Regulations, as specified in article 3.4 thereof.

**B.1.23. State if there are any specific requirements other than those relating to directors, to be appointed chairman. YES  NO**

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**Description of requirements**

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**B.1.24. Indicate if the chairman has a casting vote: YES  NO**

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**Matters on which there is a casting vote**

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In the event of a tie vote, the chairman will have the casting vote and will settle the issue, regardless of the subject matter of the resolution being voted on (article 21 of the Bylaws and article 18.3 of the Board Regulations).

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**B.1.25.** Indicate if the bylaws or regulations for the board of directors establish any age limit for directors: YES  NO

Maximum age of chairman	Maximum age of managing director	Maximum age of director
70		70

Article 22 of the Board Regulations contemplates that directors will place their positions at the disposal of the Board of Directors and will, if the Board deems appropriate, tender their formal resignations, when they reach seventy (70) years of age.

**B.1.26.** Indicate if the bylaws or board regulations set a limit to the term of office of independent directors: YES  NO

Maximum number of years in office
12

Independent directors will have a term of office of four years, the same as all other directors, and may be re-elected.

Notwithstanding the foregoing, as provided in article 7.2 c) in fine of the Board of Directors Regulations, independent directors may not remain as such for a continuous period of more than twelve years.

As already indicated in Section B.1.19 above, unless there is sufficient cause and a prior report is issued by the Nominating, Compensation and Corporate Governance Committee, the Board of Directors may not propose the removal of any outside directors before they complete the terms for which they were appointed.

**B.1.27.** If there are few female directors, or none, explain the reasons and the initiatives adopted to correct that situation.

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**Explanation of reasons and initiatives**

Consistently with recommendation no. 15 in the Conthe Code, the intention to add female directors having appropriate qualifications and experience to the board guided the reports and proposals of the Nominating, Compensation and Corporate Governance Committee and the Board of Directors. This culminated with appointment of two new female directors by the General Shareholders Meeting held on 22 May 2008.

Thus at its meeting of 14 May the Nominating, Compensation and Corporate Governance Committee proposed to the Board of Directors, which in turn proposed to the General Shareholders Meeting, the appointment for a term of four years of a new independent female director. It further advised of the appointment of a new proprietary female director. They filled two of the four existing vacancies. It is notable that of the four new directors added to the board in 2008, 50% are women.

The two new female directors joining the Board of Directors are:

**Ms. Arantza Mendizábal Gorostiaga**, appointed on proposal of the Nominating, Compensation and Corporate Governance Committee, as an independent outside director.

**Ms. María Jesús Álvarez González**, a proprietary female director appointed on proposal of a shareholder of the Company (SEPI) after a report from the Nominating, Compensation and Corporate Governance Committee.

The commitment of RED ELÉCTRICA's Board of Directors to strengthen the presence of women is an objective within the scope of good corporate governance policies. Although there was an advance in application thereof in 2008, both within the Board of Directors and management and within the remainder of the Company's staff, implementation has not been completed. The intention is to implement a model of responsible corporate management based, inter alia, on active management of the principles of equality and non-discrimination.

The board of directors, as a part of the foregoing commitment, required the Nominating, Compensation and Corporate Governance Committee to prepare a report on gender diversity matters. This report was approved at the board meeting of 18 December 2008.

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In particular, state whether the Nominating and Compensation Committee has established procedures so that selection processes do not suffer from implicit bias preventing selection of women and consciously seek candidates meeting the requirements: YES  NO

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**Identify the principal procedures**

As has been stated, the actions implemented by the company consist of actively promoting selection of female directors and adding them to the Board of Directors, on the terms contemplated in recommendation no. 15 of the Conthe Code.

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**B.1.28.** State whether there are formal procedures for delegating votes at board of directors meetings. If there are, give brief details.

Each director may extend a proxy to another director, in writing and specifically for each meeting, to vote for him in the meetings of the Board of Directors. It is so provided in article 21 of the bylaws.

If a director cannot, for justified cause, attend a board meeting that has been called, he must give instructions to the director that will represent him, endeavouring that he be represented by a director of the same category as provided in article 28.2 b) of the Board Regulations.

**B.1.29.** Indicate the number of meetings held by the board of directors during the period. Also state, if appropriate, the number of times the board has met without the presence of the chairman:

Number of board meetings	Number of board meetings without the chairman being present
11	0

State the number of meetings the various board committees have held during the fiscal year:

Number of meetings of the Executive or Delegate Committee	--
Number of meetings of the Audit Committee	12
Number of meetings of the Nominating and Compensation Committee	9
Number of meetings of the Nominating Committee	--
Number of meetings of the Compensation Committee	--

**B. 1.30.** State the number of meetings held by the board of directors during the fiscal year without the attendance of all of its members. The figures treat attendance of proxies without specific instructions as absences:

Number of absences of directors during the fiscal year	Absences as a percentage of total number of votes during the fiscal year
2	1.65 %

**B. 1.31.** Indicate if the individual and consolidated annual financial statements submitted for board approval are previously certified: YES  NO

Identify, if applicable, the person/people certifying the individual and consolidated financial statements of the company, for formulation by the board:

Name	Position
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**B.1.32.** Give details of any mechanisms the board of directors has established to avoid having the individual and consolidated financial statements presented to the general meeting with qualifications in the auditors' report.

The Board Regulations expressly establish that the Board of Directors of the Company will formulate the final financial statements, striving to ensure that there are no auditor qualifications. Nevertheless, when the Board considers that it must maintain its position, then it will publicly state the content and scope of the disagreement.

In this regard, the Audit Committee is particularly important, as it continuously monitors the process of reporting economic and financial information to the market supervisory bodies, thereby increasing the possibility of absence of qualifications in the annual audit reports.

The Company, since its incorporation, has not been subject to qualifications in the audits of its

financial statements. This demonstrates the high degree of accuracy, reliability and sufficiency of the financial statements of the Company and its consolidated group throughout its life, at all times guaranteeing the maximum reporting transparency.

**B.1.33.** Does the secretary of the board hold a directorship? YES  NO

**B.1.34.** Explain the procedures for appointment and removal of the secretary of the board, indicating whether the nominating committee has reported thereon and the full board has approved.

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**Procedure for appointment and removal**

As provided in article 10.4 of the Board Regulations, the Nominating, Compensation and Corporate Governance Committee, prior to their submission to the Board, will report on proposals for appointment and removal of the secretary of the Board of Directors.

The secretary of the Board of Directors is Mr. Rafael García de Diego Barber, a member of the Madrid Bar Association. He is not a director of the Company. He has served since 4 May 1995. For that reason the Nominating Committee could not report on his appointment, since on that date it did not exist.

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	YES	NO
Does the nominating committee report on the appointment?	X	
Does the nominating committee report on removal?	X	
Does the full board approve the appointment?	X	
Does the full board approve the removal?	X	

Is the secretary of the board specifically charged with monitoring good governance recommendations? YES  NO

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**Comments**

As provided in articles 26 e) of the Bylaws and 10.3 b) of the Board Regulations, the authority of the secretary of the Board of Directors includes overseeing compliance by the Board of Directors and its committees with the Bylaws, the General Shareholders Meeting Regulations and the Board of Directors Regulations, and other corporate governance rules of the Company.

In addition, letter f) of the indicated article 26 of the Bylaws and corresponding article 10.3 c) of the Board Regulations provide that the secretary of the Board of Directors is to "see to it that the Company's corporate governance rules and the actions of the Board of Directors respect the good governance recommendations in effect from time to time".

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**B.1.35. Indicate any mechanisms established by the company to safeguard the independence of the auditor, financial analysts, investment banks and rating agencies.**

The Audit Committee is the body under the Board of Directors that is responsible for the relationship with outside auditors. In this regard the Audit Committee assists the Board of Directors in ensuring independence of the Company's outside auditor.

In exercise of the authority contemplated in article 23.2 of the Bylaws, article 14.3 b) of the Board of Directors Regulations, in respect of the independence of outside auditors, charges the Audit Committee with establishing procedures to ensure the independence and professionalism of the outside auditors of accounts and receiving information regarding matters that might endanger them.

In this regard the Audit Committee must ensure that the Company (i) makes material disclosure to the CNMV of changes in auditors and, if applicable, disagreements with the departing auditor, and (ii) complies with the applicable rules regarding non-audit services, limits on the concentration of the auditor's business and, in general, the other rules established to ensure independence of the auditors. Also, in the case of resignation of the auditor, the Audit Committee must examine the underlying circumstances.

Further, pursuant to the terms of article 38 of the Board of Directors Regulations, the board will refrain from engaging audit firms whose anticipated fees in all categories are projected to surpass 10% of total income during the last fiscal year.

In addition, article 38 of the Regulations requires the Board of Directors to provide yearly information on the overall fees paid by the Company to the audit firm for non-audit services. The Corporation makes frequent presentations to financial analysts and investment banks to report the key economic and financial figures of the group, and to review its business performance.

Said presentations are regularly attended by the most important professionals and specialists in the sector. After making the foregoing presentations, all participants are offered the opportunity to

be included in a list of entities that periodically receive the most important information regarding the Company of interest to them.

Presentations to analysts are first sent to the CNMV so that they are known by the markets through its website, and are then immediately posted on the Company website.

The Company has an "Investor Relations" Department reporting to the General Administration and Finance Office, responsible for acting as a communications channel with financial professionals and for answering their questions.

**B.1.36. State whether the company changed outside auditors during the fiscal year. Is so identify the new and departing auditors:**

YES  NO

Departing auditor	New auditor
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**If there were disagreements with the departing auditor, describe the substance:**

YES  NO

Description of disagreements
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**B.1.37.** Indicate if the audit firm provides any non-audit services to the Company and/or group. If so, state the auditor's fees for such services in absolute terms and as a percentage of the total fees invoiced to the company and/or its group.

YES  NO

	Company	Group	Total
<i>Fees for non-audit services (thousands of euros)</i>	-	-	-
<i>Fees for non-audit services / Total fees invoiced by the auditor (as a %)</i>	0%	0%	0%

**B.1.38.** State whether the audit report on the financial statements for the prior fiscal year contains reservations or qualifications. If applicable, state the explanation given by the chairman of the audit committee of the substance and scope of the reservations or qualifications. YES  NO

Explanation

**B.1.39.** Indicate the number of consecutive years the current audit firm has audited the company's and/or group's financial statements. Also state how long the current audit firm has audited the company's financial statements as a percentage of the total number of years for which the company's financial statements have been audited:

	Company	Group
<b>Number of consecutive years</b>	3	3
<b>No. of years audited by current audit firm / No. of years the company has been audited (as a %)</b>	13.0%	37.5%

**B.1.40.** Give details of directors' shareholdings, as disclosed to the company, in companies whose business is similar, analogous or complementary to the business constituting the company's corporate purpose or that of the group to which it belongs. State also any offices or functions the named directors hold or perform in those companies:

Name of director	Name of company in which shares are held	% shareholding	Office or function
José Rodrigues Pereira dos Penedos	REN, SGPS.	0.014	Chairman of the Board
Arantza Mendizábal Gorostiaga	Iberdrola, S.A.	0.0001	--
	Endesa, S.A.	0.0000	--
	Iberdrola Renovables, S.A.	0.0000	--

**B.1.41.** Is there a procedure to allow directors to take independent professional advice? If so, give details. YES  NO

**Describe procedure**

A specific procedure exists within the Company in order for directors to obtain outside advice.

To receive assistance in exercising their functions, article 26 of the Board Regulations establishes that outside directors may request that the Board of Directors engage legal, accounting, financial or other expert consultants, at the expense of the Company.

The task entrusted to them will deal only with specific problems with a degree of magnitude and complexity arising in carrying out their responsibilities.

The request must be presented to the chairman. It may be rejected by the Board of Directors if it concludes that:

- a) It is not necessary for proper performance of the functions entrusted to the outside directors;
- b) The cost thereof is not reasonable in view of the importance of the problem and the assets and income of the Company; or
- c) The technical assistance sought may be adequately provided by experts or technicians of the Company, or has been entrusted to other outside experts.

In respect of the Audit Committee and the Nominating, Compensation and Corporate Governance Committee, articles 13.5 and 15.6, respectively, of the Board Regulations state that the committees may propose that the Board of Directors seek independent professional advice.

Furthermore, said committees may have access to any type of information or documentation of the Company that is necessary to better carry out their duties, pursuant to the provisions established in the foregoing articles of the Board Regulations.

**B.1.42.** Indicate if there is a procedure to ensure that directors have the information they need in order to prepare for board and board committee meetings in good time:

YES  NO

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**Describe procedure**

Board of Directors meetings are called at least six (6) days in advance and all the relevant information is sent together with the call. The call always includes the agenda of the meeting and, in general, except when it is not possible, the relevant information, duly summarised and prepared.

Notwithstanding the foregoing, article 17.3 of the Board Regulations establishes that the call of the board will be sent at least three (3) days prior to the date of the meeting. As an exception and for emergency reasons, the board may be called by telephone and the prior notice period will not apply when, in the chairman's opinion, the circumstances so require. The emergency reasons will be explained in the minutes of the meeting.

Article 25 of the Board Regulations provides that a director has the broadest rights to information regarding and to review any matter affecting the Company. In this regard a director at any time may examine the books, records, documents and other background of corporate transactions, and even inspect all of its facilities. The right to information extends to subsidiary companies, both domestic and foreign.

In accordance with said article 25 of the Board Regulations and in order to not disturb the ordinary management of the Company, exercise of rights to information will be channelled through the chairman of the Board of Directors, who will deal with all requests of the director, directly providing the information. Also, he will offer the appropriate contact person at the proper level within the organisation or make arrangements to allow the director to conduct the desired examination and inspection in situ.

Article 25 of the Board Regulations 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 the decision during its next meeting.

Also, both the Audit Committee and the Nominating, Compensation and Corporate Governance Committee may access any kind of information or documentation of the Company that they need for better performance of their duties, as indicated in section B.1.41 above.

**B.1.43.** State whether the company has established rules requiring directors to report and, if applicable, resign under circumstances that may prejudice the credit and reputation of that Company, and if so give details: YES  NO

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**Explain the rules**

Article 30 of the Board Regulations, among the disclosure obligations of a director, provides that a director must advise the Company of all judicial, administrative and other claims that by reason of their significance may

jeopardise the credit and reputation of the Company. In particular he must advise of criminal actions in which he appears as an accused, and of the progress of the trial.

Also, as indicated in article 22.2 of the Board Regulations, directors must tender their positions to the board of directors and formalise the corresponding resignation when remaining on the Board endangers the interests of the Company, as discussed above, if so ordered by the Board by a vote of two thirds of its members.

Also, if a director is indicted or tried for any of the crimes referred to in article 124 of the Corporations Act, the Board will review the matter as soon as possible, and in light of the particular circumstances will decide as contemplated in the preceding paragraph whether it is appropriate for the director to remain in the position. All of the foregoing will be covered by the Annual Corporate Governance Report.

**B.1.44.** State whether any member of the board of directors has reported to the company that he has been indicted or tried for any of the crimes stated in article 124 of the Corporations Act:

YES  NO

Name of director	Criminal case	Comments
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State whether the Board of Directors has reviewed the case. If yes, give a reasoned explanation of the decision adopted as to whether the director should remain in office.

YES  NO

Decision adopted	Reasoned explanation	Should/Should not remain in office

**B.2. Committees of the Board of Directors****B.2.1. List all committees of the board of directors and their members:****EXECUTIVE OR DELEGATE COMMITTEE**

Name	Position	Type
--	--	--

**AUDIT COMMITTEE**

Name	Position	Type
Francisco Javier Salas Collantes	Chairman	Independent
Arantza Mendizábal Gorostiaga	Member	Independent
María Jesús Álvarez González	Member	Proprietary

**NOMINATING AND COMPENSATION COMMITTEE**

Name	Position	Type
M <sup>a</sup> Ángeles Amador Millán	Chairwoman	Independent
Antonio Garamendi Lecanda	Member	Independent
Luis M <sup>a</sup> Atienza Serna	Member	Inside
Manuel Alves Torres	Member	Proprietary

**NOMINATING COMMITTEE**

Name	Position	Type

**COMPENSATION COMMITTEE**

Name	Position	Type

COMMITTEE		
Name	Position	Type

**B.2.2.** State whether the audit committee performs the following functions

	YES	NO
Monitor the preparation and the integrity of the financial information on the company and, where appropriate, the group, reviewing compliance with legal provisions, appropriate definition of the scope of consolidation, and proper application of accounting principles	X	
Periodically review the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed	X	
Monitor the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations in its reports	X	
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	X	
Make recommendations to the board for the selection, appointment, reappointment and removal of the outside auditor, and the terms and conditions of its engagement	X	
Receive regular information from the outside auditor on the progress and findings of the audit programme, and verify that senior management is acting on its recommendations	X	
Ensure the independence of the outside auditor	X	
In the case of groups, the committee should urge the group auditor to take on the auditing of all component companies	X	

**B.2.3.** Describe the rules of organisation and procedure of each board committee, and the responsibilities assigned to each one.

## I. AUDIT COMMITTEE

### a) Background

The Board of Directors of Red Eléctrica at its meeting held on 18 November 2003 established the Audit Committee, which replaced the former Audit and Compliance Committee, under the provisions of article 23 of the Bylaws and in Chapter V, articles 15 and 16 of the new Board of Directors Regulations, approved at that meeting. The foregoing was also consistent with the provisions of article 47 of Act 44/2002 of 22 November 2002 on Measures to Reform the Financial System.

Specifically, the Company's Audit Committee was created by a resolution adopted by the Board of Directors of Red Eléctrica on 30 November 1999, referred to as the Audit and Compliance Committee. This Committee was the result of the process of adapting the Company's governance rules to the new situation derived from the IPO launched by the State Industrial Ownership Corporation (SEPI) and from the Company's listing on the stock markets on 7 July 1999.

The Ordinary General Shareholders Meeting of the Company on 31 May 2007 approved an amendment of the Bylaws to adapt them to the Sole Corporate Governance Recommendations Document, called the Uniform Good Governance Code, approved by the CNMV by Resolution 19 of May 2006.

In respect of the Audit Committee, that Meeting amended article 23 of the Bylaws, to adapt it to recommendation no. 22 of the referenced Uniform Good Governance Code, regarding composition of the committee, and changed the name of the Audit Committee from "Comité de Auditoría" to "Comisión de Auditoría", more in accordance with commercial practice.

During the 2008 fiscal year there were no bylaws amendments regarding the Audit Committee.

### b) Composition

Article 13 of the Board Regulations provides that the committee will be comprised of a number of members to be determined by the Board of Directors, from a minimum of three (3) to a maximum of five (5), the majority being outside directors, appointed by the Board of Directors and reasonably reflecting the composition of the Board.

As already mentioned, the directors belonging to the Committee are particularly qualified to hold their positions, with broad professional experience in positions of the highest responsibility outside the RED ELÉCTRICA Group, in functions similar to those entrusted to them. Below is a brief description of each member's career (further details are provided in Section B.1.3 above):

- ◀ Mr. Francisco Javier Salas Collantes has a degree in Economics, specialising in Business Economics, and throughout his career has held relevant professional positions in economic and financial areas, as well as positions of the highest corporate responsibility; among other positions, he has been a director of Banco Exterior de España, of Argentaria and of Inforeasing, he is a founding member and manager of SAGA Servicios Financieros; he has acted as chairman of INI, TENEO and IBERIA and, among other positions, now is a director of Telvent and chairman of its Audit Committee.
- ◀ Ms. Arantza Mendizabal Gorostiaga holds a doctorate in economics and is Professor of Applied Economics at the School of Economics of the Universidad del País Vasco. She has been a distinguished researcher regarding industrial and technological policy, a member, as a congresswoman, of the Economy and Finance Committee of the Congress, a member, as a congresswoman, of the Budget Committee and spokeswoman for the Industry, Trade and Tourism Committee of the Congress. Currently, in addition to acting as a professor, she is Director of the European Documentation Centre of the Universidad del País Vasco
- ◀ Ms. María Jesús Álvarez González holds degrees in law, economics and business from the Universidad Pontificia de Comillas. She has been a member of the boards of directors of Enusa

Industrias Avanzadas, S.A., Clínica Castelló, S.A., Indra Sistemas, S.A., Infoinvest, S.A., ENRESA and Aluminio Español, S.A. Currently she is Economic and Financial Manager of SEPI and a member of its Management Committee. Among other positions, she is a member of the Liquidating Board of the public entity RTE and a director of Agencia EFE, S.A., of Fundación SEPI and of Fundación Laboral SEPI.

The members of the committee serve for a term of not more than three years. They may be re-elected and cease to be members of the committee at the end of that term, when they cease to be directors, or when so resolved by the Board of Directors, in the latter case after a report from the Nominating, Compensation and Corporate Governance Committee. The chairman of the committee is elected by its members from among the outside directors and the secretary of the committee is the secretary of the Board of Directors. The chairman must be replaced every three years and may be re-elected after a year has elapsed since he left office. The appointment and removal of its members is carried out by the Board of Directors on proposal of the board chairman.

### c) Organisation and procedure

The committee meets at least on a quarterly basis and any time it is called by the chairman or two of its members so request, and whenever the board or chairman of the board requests that it issue a report.

The call of the meetings, including the agenda, is sent by the chairman or secretary of the committee to each of its members, at least three days before the date specified for the meeting, unless the meeting needs to be called earlier for emergency reasons.

There is a quorum for a committee meeting with the attendance of a majority of its members and decisions or recommendations are adopted by majority vote, and are entered in the minutes at the end of the meeting. The meetings of the committee must be attended by members of the management team or of the Company's staff who are required to do so by the chairman. They must collaborate and enable access to any information available in respect of the issues to be discussed.

In order to better perform its duties, the committee may make a proposal to the Board of Directors to receive the advice of independent professionals, and may access any type of information or documentation of the Company it may require.

#### d) Authority

The minimum authority of the Audit Committee is implemented in article 14 of the Board Regulations, and can be classified in six major groups, i) economic and financial information; ii) internal control and risk management systems; iii) outside auditors; iv) compliance with legal provisions and internal rules; v) shareholders of the Company, and vi) other general authority.

The committee, composed entirely of outside directors, met formally with the outside auditor on various occasions during 2008, whenever considered convenient for the better performance of its duties, and presented the questions, clarifications and comments deemed to be appropriate.

Notable is the procedure for fulfilling responsibilities in respect of the financial statements. Ever since the Audit and Compliance Committee was established in 1999, it has been in charge of reviewing the Company's financial statements, ensuring compliance with legal requirements and proper application of generally accepted accounting principles, and reporting on any modifications of accounting principles and criteria proposed by management.

When that committee became the Audit Committee in November 2003, with authority and responsibilities established by law and the bylaws, it in addition assumed responsibility for approving the accounting principles and criteria to be used in preparation of the Company's financial statements and those of its consolidated group, and verifying their accuracy, reliability and sufficiency.

Also notable is the specific procedure for the committee's supervision of any financial information sent on a periodic or one-time basis to the market supervision bodies. It is also in charge of ensuring compliance with legal accounting rules in the Company's financial statements and, in

particular, with any Community recommendations and obligations on electricity company accounting that may be applicable.

All of this results in a more direct control over the preparation of the Company's economic and financial information. As this control is carried out by a collegial body consisting of directors with the highest professional qualifications in respect of the committee's matters, as indicated by the careers of these directors as described above, the principles of accounting reliability, security, accuracy and sufficiency are strengthened, as is the transparency of the process for preparation of corporate economic information.

Section G of this report includes a summary of the activities of the Audit Committee in 2008.

## II. NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

### a) Background.

After Red Eléctrica was listed on the stock exchange in 1999, a Nominating Committee was formed within the Board of Directors. It began to act in the area of appointment of directors and senior officers. Following the recommendations of the Aldama Report, dated 18 November 2003, the Company's Board of Directors converted it into the Nominating and Compensation Committee. The committee's initial authority regarding appointments was expanded, and it assumed new responsibilities in respect of compensation of the Board of Directors and the management team of the Company and its group.

In accordance with recommendations regarding corporate governance, particularly those set forth in the Conthe Code, during the 2007 fiscal year, pursuant to amendments introduced by the General Shareholders Meeting on 31 May 2007, the Company's Board of Directors changed the name of the Committee. It became the Nominating, Compensation and Corporate Governance Committee, and its authority was expanded. Notable among the authority expressly given to it is that related to corporate governance.

### b) Structure.

Articles 24.2 of the Bylaws and 15 and 16 of the Board of Directors Regulations govern the structure, composition and functions of the Nominating, Compensation and Corporate Governance Committee.

The Committee must examine the suggestions forwarded by the chairman, the members of the committee, and Company executives or shareholders, in matters affecting the appointment of directors, including managing or inside directors, or compliance with corporate governance principles, the Bylaws and the Board of Directors Regulations.

The committee meets as often as required for proper performance of its duties. In any event it must meet at least on a quarterly basis, whenever called by its chairman or requested by two of its members, and also whenever the Board of Directors or its chairman requests that a report be issued or proposals be adopted. The calls of the meetings must include the agenda and are sent by the committee chairman or secretary to each of its members, at least three days prior to the date specified for the meeting, unless the meeting needs to be held earlier for emergency reasons.

There is a quorum for a committee meeting with the attendance of a majority of its members and decisions or recommendations are adopted by majority vote and entered in the minutes at the end of the meeting. In order to better perform its duties, the committee may propose to the Board of Directors that advice be requested from independent professionals and may access any type of information or documentation of the Company that is required to perform its duties.

Article 15 of the Board Regulations provides that the Nominating, Compensation and Corporate Governance Committee will be comprised of a number of directors fixed by the Board of Directors, from a minimum of three to a maximum of five, with a majority of outside directors, at least half being independent directors. The chairman of the committee is elected by its members and the secretary of the committee is the secretary of the Board of Directors.

The appointment and removal of committee members is carried out by the Board of Directors at the proposal of the board chairman. The committee members hold their positions for a period of

three years and may be re-elected; they leave their positions when they give up their directorships or if so resolved by the Board of Directors, after a report from the Audit Committee. The chairman may be re-elected after a year has elapsed since he left office.

### c) Composition.

At the end of the 2008 fiscal year and at the date of approval of this report the Nominating, Compensation and Corporate Governance Committee consists of four directors. Three are outside directors and one is an inside director. Two of the outside Directors are independent, one of them being the chairman of the committee.

At the end of the 2008 fiscal year and at the date of approval of this report the committee's composition was as follows:

Director	Position	Type of Director
M <sup>a</sup> Ángeles Amador Millán	Chairwoman	Independent
Antonio Garamendi Lecanda	Member	Independent
Luis María Atienza Serna	Member	Inside
Manuel Alves Torres	Member	Proprietary

The chairman of the committee is elected by its members and the secretary of the committee is the secretary of the Board of Directors, Mr. Rafael García de Diego Barber. The appointment and removal of committee members is carried out by the Board of Directors at the proposal of the board chairman.

### d) Authority

The basic authority of the Nominating, Compensation and Corporate Governance Committee is specified in articles 24 of the Bylaws and 15 and 16 of the Board Regulations.

Pursuant to the authorisation in article 24.2 of the Company's bylaws, the Nominating, Compensation and Corporate Governance Committee has a series of basic responsibilities regarding appointment and removal, compensation, performance of director duties, corporate governance rules and other general authority.

Section G of this report includes a summary of the activities of the Nominating, Compensation and Corporate Governance Committee in 2008.

**B.2.4. Describe the authority of each committee to make recommendations, issue opinions and act on behalf of the Board:**

Name of committee
Audit
Brief description
<p>Its basic responsibilities, pursuant to article 23 of the Bylaws, are as follows:</p> <ul style="list-style-type: none"> <li>i) Reporting to the General Shareholders Meeting regarding such matters within its competence as may be posed to it by the shareholders.</li> <li>ii) Proposing appointment of outside auditors of accounts to the Board of Directors, to be submitted to the General Shareholders Meeting.</li> <li>iii) Supervising the internal audit function.</li> <li>iv) Reviewing the financial reporting process and internal control systems of the Company.</li> <li>v) Maintaining a relationship with the outside auditor in order to gather information on matters that may call the auditor's independence into question, as well as any other matters relating to the auditing process, including the other disclosures contemplated in accounting and auditing legislation and auditing standards.</li> <li>vi) Any other authority conferred on it by the board, whether generally by way of its internal regulations or by specific assignment.</li> </ul>

The foregoing responsibilities are developed in further detail in article 14 of the Board of Directors Regulations, which provides as follows:

- As regards economic and financial information:
  - a) Approve the accounting principles and criteria to be used in the preparation of the financial statements of the Company and of its consolidated group, and verify their accuracy, reliability and sufficiency.
  - b) Monitor the preparation and integrity of the financial information of the Company and, where appropriate, the group, seeing to it that regulatory requirements are respected, the scope of consolidation is appropriately defined, and the applicable accounting principles and criteria are properly applied.
  - c) Review and report to the board in advance regarding economic and financial information the Company

must disclose and send to market supervision agencies. The committee should ensure that interim statements are prepared under the same accounting principles as annual statements and, if it considers it to be appropriate, may ask the outside auditor of accounts to conduct a limited review.

- As regards internal control and risk management systems:
  - a) Approve the internal control procedures of the Company in respect of expenditure and investment, making, where necessary, the appropriate modifications.
  - b) Supervise the internal audit function, which will ensure proper functioning of information and internal control systems and address requests for information from the Audit Committee in the performance of its duties.
  - c) Ensure the independence and effectiveness of the internal audit function; supervise and control the process of selection, appointment, re-election and removal of the head of the internal audit function, and the action plans thereof; supervise and control the resources assigned to the internal audit function and, inter alia, its budget; receive periodic information regarding its activities; and verify that senior management is acting on the conclusions and recommendations in its reports.  
The head of internal audit should present an annual work programme to the audit committee, report to it directly on any incidents arising during its implementation and submit an activities report at the end of each fiscal year.
  - d) Periodically supervise the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed.
  - e) Supervise the procedure established by the board whereby staff can report any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.  
The persons in charge of internal control must inform the Committee when they identify irregularities or breaches that may significantly impact or harm the net worth, results or to image of the Company or its group.
  
- As regards outside auditors:
  - a) Propose to the Board of Directors the appointment of outside auditors for the submission thereof to the General Shareholders Meeting, seeing to it that it is the same audit firm for all the companies in the group, as well as the terms of the audit contract, the scope of the professional engagement and the extension or termination thereof.
  - b) Establish procedures to ensure the independence and professionalism of the outside auditors and receive information regarding issues that might jeopardise it. To that end:
    - i) It will ensure that any change of auditor and any disagreement with a departing auditor is notified to the CNMV as a material disclosure.
    - ii) It will ensure that the Company, within the scope of its responsibilities, complies with current regulations on the provision of non-audit services, the limits on the concentration of the auditor's

business and, in general, other requirements designed to safeguard auditors' independence.

iii) The committee will investigate the issues giving rise to the resignation of any outside auditor.

- c) Receive any relevant information regarding the Audit Plan, the process of performance and results thereof, as well as any other information contemplated in the accounting rules.
  - d) Act as a communication channel between the Board and the outside auditor; evaluate the results of each audit and verify that senior management acts on its recommendations, mediating in the event of disputes between the former and the latter in respect of the principles and criteria applicable in the preparation of the financial statements.
  - e) Supervise the performance of the audit contract, seeking to ensure that the principal content of the audit report is drafted clearly and precisely.
  - f) Review the relevant situations identified by the outside auditor, in the same way as information from the internal control systems is received, which might adversely affect the net worth, results, or image of the group.
  - g) Regularly request from the outside auditors, at least once a year, an appraisal of the quality of the group's internal control procedures.
- As regards compliance with legal provisions and internal regulations:
- a) Supervise observance of the Code of Conduct in the Securities Market and, in general, the procedures for reporting financial and accounting irregularities and adjusting related party transactions to the Company's interest, making proposals for improvement to the Board of Directors, and receive information in this respect and, if appropriate, issue a report on the measures to be implemented.
  - b) Review observance of actions and measures that are a consequence of reports or inspections by the supervisory and control authorities of the Securities Market.
- As regards the Company's shareholders:
- a) Review and, if applicable, respond to the initiatives, suggestions or complaints that may be made by shareholders in respect of the scope of authority of this committee.
  - b) If appropriate, report to the Shareholders Meeting on issues raised at the meeting by shareholders on issues falling within its authority.
- Other:
- a) Keep the Board of Directors duly informed of its activities and prepare an annual report to be included in the Annual Corporate Governance Report and an Action Plan for each fiscal year.
  - b) Report to the board on extraordinary investment transactions when it so requests and, in any event, on transactions creating or acquiring interests in special-purpose vehicles or entities domiciled in countries or territories that are treated as tax havens, and also any transactions and operations that could impair the group's transparency.
  - c) Report in advance to the board on related party transactions.

- d) Propose and report on any other matter related to the foregoing that may be requested by the chairman or by the Board of Directors.
- e) Any other authority conferred on it by the board.

**Name of committee**

Nominating, Compensation and Corporate Governance

**Brief description**

Its basic responsibilities, pursuant to article 24 of the Bylaws, are as follows:

- a) Report in advance on (and, in the case of independent directors, make) any proposals the Board of Directors is to make to the General Meeting for the appointment or removal of directors, including in cases of cooption.
- b) Proposing the compensation policy for directors and senior officers to the Board of Directors and monitoring its implementation.
- c) Assuming the reporting, supervision and proposal functions regarding corporate governance as determined by the Board of Directors, for so long as an ad hoc committee is not created for that purpose".

The foregoing responsibilities are developed in further detail in article 16 of the Board of Directors Regulations, which provides as follows:

- As regards appointments and removals:

- a) Report in advance on (and, in the case of independent directors, make) any proposals the Board of Directors is to make to the General Meeting for the appointment or removal of directors, including in cases of cooption.
- b) Report prior to their submission to the Board of Directors on proposals for appointment or removal of the secretary of the Board of Directors and the assistant secretary thereof.
- c) Propose to the Board of Directors a system for selecting independent Directors.
- d) Evaluate the balance of skills, knowledge and experience on the board and based thereon define the roles and capabilities required of the candidates to fill each vacancy.
- e) Evaluate the time and dedication necessary for directors to perform their duties with due quality and efficiency, for these purposes evaluating whether they are compatible with membership on other management bodies of listed companies.
- f) Report on the senior officer appointments and removals that the chairman proposes to the Board of Directors.
- g) Examine or organise, in appropriate form, the succession of the chairman, making recommendations to the board so the transfer proceeds in a planned and orderly manner.

- h) Ensure that gender diversity is respected when filling vacancies.
  - i) Consult with the chairman, particularly when dealing with matters related to inside directors.
- As regards compensation:
- a) Propose to the Board:
    - the compensation policy for directors and senior officers.
    - the individual compensation and other contractual conditions of inside directors.
    - the standard conditions for senior officer employment contracts.
  - b) Consult with the chairman of the Company, particularly when dealing with matters related to inside directors and senior officers.
  - c) Oversee compliance with the compensation policy set by the Company.
- As regards discharge of the directors' duties:
- a) Ensure fulfilment by the directors of the obligations established in these regulations, report to the Board on their performance, and issue the appropriate reports and proposals as well as, as applicable, on the measures to be adopted in the event of breach.
  - b) Authorise the directors to use corporate assets.
- As regards corporate governance rules:
- Supervise observance of the corporate governance rules, making proposals for improvement to the Board of Directors, and receive information in this respect and, if appropriate, issue an annual report on the measures to be implemented and send it to the board.
- Other functions:
- a) Keep the board informed of its activities and prepare an annual report to be included in the management report, as well as an action plan for each fiscal year.
  - b) Propose and report on any other matter related to the foregoing that may be requested by the chairman or by the Board of Directors.
  - c) Report to the board on performance of their duties by the chairman and the full committee.
  - d) Verify the category of each director, for purposes of the pertinent board explanations to the General Shareholders Meeting that is to make or ratify the appointment of that director, and reflect it in the Annual Corporate Governance Report.
  - e) Any other authority conferred on it by the board.
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**B.2.5.** State whether there is any regulation of board committees, the place where the regulations may be consulted, and any changes that have been made to them during the year. Also state whether any voluntary annual report has been prepared on the work of each committee.

There are no specific internal regulations for committees. Rather there is complete overall regulation in the Board of Directors Regulations.

Those regulations may be viewed on the Company's website, [www.ree.es](http://www.ree.es), in the Shareholders and Investors section, Corporate Governance, without prejudice to their being registered, and therefore available to investors in general, at the CNMV and Madrid Commercial Register.

The Board Regulations were not amended during the 2008 fiscal year.

The Board committees annually prepare various reports regarding the progress of their activities. Copies thereof are attached in section G) of this report.

**B.2.6.** State whether the composition of the executive committee reflects the proportions of the different types of directors on the Board: YES  NO

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If not, describe the composition of the executive committee

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Not applicable because there is no executive committee.

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## C - Related party transactions

**C.1.** State whether the full board has reserved approval, after a favourable report from the audit committee or any other committee to which that function has been delegated, of transactions the company engages in with directors, significant shareholders or shareholders represented on the board, or persons related to them: YES  NO

**C.2.** Give details of any significant transactions involving the transfer of resources or obligations between the Company or Group entities and the Company's significant shareholders

Name of significant shareholder	Name of group company	Nature of relationship	Type of transaction	Amount (thousands of euros)
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**C.3.** Give details of any significant transactions involving the transfer of resources or obligations between the Company or group entities and directors or officers of the Company:

Name of director or officer	Name of group company	Nature of transaction	Type of transaction	Amount (thousands of euros)
--	--	--	--	--

There are no material transactions with company managers and directors.

The 31 December 2008 balance sheet included no loans or advances, nor guarantees established by the companies of the group in favour of members of the Board of Directors of the Company. At said date there were no pension liabilities incurred in respect of members of the Board of Directors of the Company.

**C.4.** Give details of any significant transactions entered into by the Company with other companies belonging to the group, unless the transactions are eliminated in the process of preparing the consolidated financial statements and, as regards their subject matter and terms, are part of the ordinary course of the Company's business:

Name of group company	Brief description of the transaction	Amount (€ 000s)
Red Eléctrica del Sur (REDESUR)	Transactions of no material significance, carried out in the ordinary course of the business, which are included merely for informational purposes.	647

**C.5.** State whether the members of the Board of Directors during the fiscal year had any conflicts of interest, as contemplated in article 127 ter of the Corporations Act.

YES  NO

Name of director	Description of conflict of interest
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**C.6.** Give details of the mechanisms in place to detect, determine and resolve any conflicts of interest between the company and/or group, on the one hand, and its directors, executives or significant shareholders, on the other.

Article 29.3 a) of the Board Regulations establishes that directors must refrain from attending and participating in deliberations affecting matters in which they have a direct or indirect personal interest.

A personal interest will also be considered to exist when the matter affects a person related to the director or to a company with which he has an employment or professional relationship, or in which he holds a management position or significant shareholding. For the foregoing purposes persons

related to the director are those defined as such from time to time in the applicable regulations.

In accordance with the provisions of article 29.3 b) of the Board Regulations, proprietary directors must disclose to the Board of Directors any conflict of interest between the Company and the shareholder proposing the director's nomination, when said conflict affects matters presented to the board. Furthermore, said director must refrain from participating in the adoption of any of the corresponding resolutions.

In addition, article 2 of the Regulations for Conduct in the Securities Market, approved on 20 July 2006, within its scope of application includes directors, the secretary and assistant secretary of the Company's board of directors, members of the Company's senior management and other directors expressly specified by the Oversight Body.

Under article 7 of the Regulations for Conduct in the Securities Market, persons subject or temporarily subject thereto generally must attempt to avoid situations of direct conflict of interest, or conflicts of persons related thereto. They are required to advise the Oversight Body within a term of fifteen (15) days after learning thereof of conflict of interest situations that may reasonably arise, so that body may make the corresponding decisions on an advance basis. Managers are to give notice of the situations described in the preceding paragraph through the secretary of the Board of Directors.

Those subject or temporarily subject to the rules must update the information regarding conflicts of interest they have disclosed, describing such changes as may have occurred. Without prejudice to the obligations specified in the preceding paragraph, as regards conflicts of interest directors must comply with the requirements set forth in the Bylaws and the Company's Board of Directors Regulations and, in general, with all requirements under commercial legislation applicable to corporations.

The Oversight Body will maintain and update a register broken down by the conflict of interest situations disclosed by the various persons subject or temporarily subject to the rules, and will

adopt appropriate security measures for maintaining and filing it. Access to the register in any event will be restricted.

It should be noted that for the foregoing purposes, in accordance with article 11 of the Regulations for Conduct in the Securities Market, the Oversight Body is the General Manager for Administration and Finance, acting with the cooperation of the secretary of the Board of Directors as regards legal matters deriving from application or interpretation thereof. In addition, the Oversight Body has been entrusted with the general functions of reviewing, registering, disseminating and monitoring compliance with the obligations and duties established in those regulations. The Oversight Body will have all authority necessary to perform the duties entrusted to it by the Code of Conduct, and will periodically report to the Audit Committee on the degree of compliance with said code and any incidents that may occur.

The Audit Committee is responsible for supervision of compliance with the regulations and performance of the Oversight Body, the person responsible for the significant transaction and the office of the secretary of the Board of Directors contemplated therein, as well as internal resolution of such questions and conflicts posed by those subject or temporarily subject to the rules as may be submitted by the Oversight Body. The Audit Committee will prepare an annual evaluation of compliance with the standards of the referenced Code of Conduct and adopt, as applicable, appropriate measures for better implementation and improvement. It is also responsible for proposing to the board such amendments as it deems to be required in light of the board's commitment to continuous adaptation, as well as adoption of best corporate governance practices regarding the matter under the applicable rules.

In respect of officers of the Company, article 2.1.3 of the Code of Conduct in the Securities Market establishes the possibility of the Oversight Body in each case determining the personnel who permanently should be subject to the regulations and therefore subject to possible conflicts of interest. Article 5.2.2 of the Regulations provides that, when circumstances so require, the Oversight Body may decide to include as persons subject to the regulations, on a temporary basis, personnel participating in a significant transaction and having access to privileged information. The parties affected will be given individual written notice both of their inclusion in and of their exclusion from those lists.

In the same way and in respect of significant shareholders, according to the provisions of article 31.3 of the Board Regulations, proprietary directors must disclose to the board any conflict of interest between the Company and the shareholder proposing the Director's nomination, when said conflict affects matters presented to the board. Furthermore, that director must refrain from participating in the adoption of any of the corresponding resolutions.

In accordance with the applicable provisions of article 31 of the Board Regulations, the Board of Directors formally retains authority to review any material transaction of the Company with a significant shareholder, unless by its nature and conditions it is within the jurisdiction of the General Meeting.

**C.7.** Is more than one group company listed in Spain? YES  NO

Identify the subsidiaries listed in Spain:

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**Listed subsidiaries**

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State whether the type of business they engage in, and any business dealings between them, as well as between the subsidiary and other group companies, have been publicly disclosed:

YES  NO

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**Describe any business relationships between the parent company and the listed subsidiary, and between it and other group companies**

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Describe the mechanisms contemplated for resolving any conflicts of interest between the listed company and other group companies:

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**Mechanisms to resolve any conflicts of interest**

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## D - Risk control systems

**D.1.** Give a general description of the company and/or group risk policy, setting out and evaluating the risks covered by the risk control systems and explaining how those systems are appropriate to the profile of each type of risk.

The purpose of the risk policy of the Red Eléctrica Group, approved by the Board of Directors on 24 July 2008, is to establish principles and guidelines to ensure the identification, analysis, evaluation, management and control of significant risks that may affect the group's objectives and activities, on a systematic basis, applying uniform criteria, within the established risk levels.

Material risks of the Red Eléctrica Group are those that may significantly affect the overall objectives of the Red Eléctrica Group, related to:

- ◀ Creation of value on a sustained basis over time.  
The growing generation of profits on a sustained basis must allow appropriate returns to investors and enable the company to implement its strategy.
- ◀ The continuity and quality of supply of energy in the electricity systems.  
Achieving this objective involves both the performance of the system operator and the reliability and availability of the transmission network.
- ◀ The construction of the infrastructure network for electricity transmission necessary to meet future needs.  
Red Eléctrica, as the single transmission company, must design, process and construct the facilities specified by energy planning. This overall objective must be achieved on a cost efficient basis.
- ◀ The compatibility of the foregoing objectives with social and environmental concerns.

This policy sets criteria regarding the acceptable level of risk for each of the indicated overall objectives. They may be summarised in the sense that all material risks threatening achievement of the indicated overall objectives must have low probability/impact values. Action must be taken regarding such risks as do not have low values, to reach that value.

The general guidelines in the risk policy are as follows:

- ◀ Risk management must be fundamentally anticipative, directed also at the medium and long term and taking into account possible scenarios in an ever more globalised environment.
- ◀ Risk management will generally be carried out having regard to the relation between the importance of the risk (probability/impact) and investment and measures needed to reduce it.
- ◀ Notwithstanding the foregoing, activities related to the electrical system must also take into account the impact the risks may have on the electrical system itself.
- ◀ The design of the processes must be based on effectiveness and efficiency criteria, including controls mitigating the risks. They must be structured in the form of systems, with international reference standards (good practices), with periodic verification and improvement.
- ◀ Contingency plans must be established to reduce the impact of material risks.
- ◀ Insurance policy coverage of such losses as may occur.

The most important risks to which the group is exposed, the focus of the risk control system, are:

- a) Regulatory, since the principal business activities of the Group are subject to regulation,
- b) Operational, basically deriving from its responsibilities within the electricity system and the requirement of care for and protection of the environment,
- c) Market, because most revenue, as well as certain expenses, may be influenced by variables such as inflation and interest rates, and
- d) Business and Credit (or counterparty), although to a lesser extent due to the lesser weight of the subsidiaries in the overall group and the existing regulation regarding invoicing and collection for transmission and operating activities.

The risk control system covers both risks to internal processes as well as risks to the environment in which it operates, covering all activities carried out by the group, evaluating the impact of each risk on four matters: strategy, the income statement, the electricity system and reputation.

Of all risks monitored by the system, 10% relate to regulatory risks, 75% to operational risks and 15% to business, market or credit risks. These figures are consistent with a group with a Parent

Company the mission of which is to ensure the overall functioning of the electricity system, the high degree of regulation and its solvency, reflected by the ratings of international rating agencies.

**D.2.** State whether any of the various kinds of risk (operating, technology, financial, legal, reputation, tax ...) arose during the fiscal year, affecting the company and/or its group: YES  NO

If so, describe the underlying circumstances and whether the established control systems functioned appropriately.

Risks arising during the fiscal year	Underlying circumstances	Functioning of control systems
<p>The transmission network facilities are constantly exposed to operating events that may affect the continuity and security of the supply of electricity.</p> <p>During 2008 there were events of this kind, with one risk resulting in a fine in the amount of 11,000,000 euros.</p>	<p>On a general basis, these events were caused by third parties and meteorological phenomena.</p> <p>The 11,000,000 euro fine resulted from the July 2007 incident in Catalonia. The amount has been reserved and the fine appealed before the courts.</p>	<p>The control systems functioned appropriately, as shown by the availability index for the transmission network. In 2008 it was 98.17% (98.06% in 2007). The average time of interruption was 1.15 minutes (1.10 minutes in 2007).</p> <p>The Company has insurance policies limiting the potential impact of these events on the income statement.</p>

**D.3.** State whether there is a committee or other management body charged with establishing and supervising those control mechanisms. YES  NO

If so describe its functions.

Name of committee or body	Description of functions

The Board of Directors is responsible for approval of the policy for overall management of the risks of the Company and the group, and for review and periodic follow-up regarding the systems for internal control, prevention and reporting.

The Audit Committee is responsible for ongoing supervision of the risk management system, so that the principal risks are identified, managed and appropriately disclosed.

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

- ◀ Fostering implementation of the overall risk management policy.
- ◀ Monitoring the Risk Map, and ordering the appropriate actions to facilitate achieving overall objectives.

The risk control function is centred in the Regulation Office, which reports to the Office of the Chairman.

**D.4.** Identify and describe the processes for compliance with the various regulations that affect your company and/or group.

#### Processes

The RED ELÉCTRICA Group is constantly designing and implementing processes to ensure compliance with the various regulations and to mitigate or reduce the related risks.

These processes have been integrated into systems structured according to a set of internal standards and procedures based on international standards (ISO 9001, ISO 14001 and OHSAS 18001), which are subject to systematic audits of the adequacy of design and compliance, and include elements of control for the objectives sought.

### Projects

All proposals for projects of significance from an economic or strategic point of view include the corresponding risk analysis, which allows an evaluation of the risks to be carried out when the related decisions are to be made. These decisions are made by the competent body according to the established limits, with more important projects requiring the approval of the Board of Directors.

### Verification

The internal standards and procedures, in respect of their design, adaptation to existing regulations and proper compliance, are systematically reviewed by the internal audit and compliance functions. These are part of the Office of the Chairman and, further, the procedures are supervised by the Audit Committee.

Internal standards and compliance are subject to an outside audit on a periodic basis, by international ISO and OHSAS standards certification bodies.

## E - General meeting

**E.1.** State whether there are, and if so describe, departures from the minimums contemplated in the Corporations Act regarding the quorum for holding the General Meeting. YES  NO

	Percentage quorum other than as provided in art. 102 of the Corporations Act for general matters	Percentage quorum other than as provided in art. 103 of the Corporations Act for special matters under art. 103
Quorum required on first call	--	--
Quorum required on second call	--	--

**E.2.** State whether there are, and if so describe, departures from the system contemplated in the Corporations Act for adopting corporate resolutions: YES  NO

Describe any difference from the provisions of the Corporations Act.

	Supermajority other than as provided in art. 103.2 of the Corporations Act for matters under art. 103.1	Other instances of supermajority
Percentage established by the company for adoption of resolutions	--	--
Describe the differences		
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**E.3.** List any rights of the shareholder in respect of General Meetings that may be different from those established in the Corporations Act.

Shareholder rights in respect of General Meetings are regulated in article 15 of the Bylaws, which expressly refers to the information right and right to attend Meetings, and in articles 6 to 10 of the Meeting Regulations.

In accordance with current legislation, article 6 of the Meeting Regulations states the rights of the shareholders, adding as a principal innovation, beyond the provisions of the Corporations Act, the right to participate in corporate matters under the terms set out in article 7 of said regulations.

### Right to Information

The Company is especially interested in the shareholders' right to information, as reflected in article 15 of the Bylaws and article 8 of the Meeting Regulations. Thus, article 8 of the Meeting Regulations establishes an obligation to place at the disposal of shareholders, free of charge, both through the Shareholders Office as well as on the corporate website, documentation and information related to the agenda of the meeting, including the following:

- ◀ Call of the General Meeting with proposed resolutions and the corresponding reports of the Board of Directors.
- ◀ Financial statements of the Company, consolidated financial statements and proposal for allocation of profits for the fiscal year.
- ◀ Corporate Management Report and Consolidated Management Report for the fiscal year.
- ◀ Audit reports for the consolidated financial statements and corporate financial statements.
- ◀ Annual Corporate Governance Report.
- ◀ Corporate Social Responsibility Report.
- ◀ Environmental Report.
- ◀ Any other report required, or as determined by the Board of Directors.

In order to reinforce the shareholders' right to information, shareholders may request pertinent documentation, reports or clarifications from the Company regarding matters included on the agenda, as well as information, clarifications or questions regarding information provided by the Company to the CNMV since the date of the last General Meeting.

The Shareholders Office deals with requests presented by shareholders of the Company. Shareholders may also state questions in writing regarding information accessible to the public or that has been communicated to the competent authorities and make inquiries through that Office.

In addition, article 15.4 of the Meeting Regulations establishes that shareholders during the Meeting may verbally request reports or clarifications that they consider appropriate regarding matters included on the agenda. If this right cannot be satisfied at that time, the Board of Directors must provide the information in writing within seven days following the holding of the meeting.

### Right of Attendance

Article 15 of the Bylaws and article 9 of the Meeting Regulations establish that shareholders who are up to date on payments of capital calls and evidence their share ownership with a certificate showing they are the owners of record in the book-entry system records at least five days prior to the Meeting have the right to attend.

Board members and officers of the Company must attend the General Meetings. Generally, in order to encourage the widest dissemination of the meetings it holds and the resolutions adopted, the media will be given access to the General Meeting. To facilitate dissemination meetings may be recorded audiovisually.

The Bylaws and the Meeting Regulations establish specific conditions for the representation of shareholders at Meetings, although there is no specific policy established by the Company regarding proxies for the General Shareholders Meetings.

In this regard, article 15 of the Bylaws and article 10 of the Meeting Regulations provide that shareholders with the right to attend (which all shareholders enjoy as indicated below, given that there is no requirement regarding a minimum number of shares to attend the Meetings) may be represented in the General Meeting by another shareholder with the right to attend, as established in articles 106 to 108, both inclusive, of the Corporations Act, as provided in the Bylaws. Proxies must be conferred in writing and specifically for each Meeting.

Except for cases of public proxy solicitations, which are subject to the prevailing legal provisions, no person can accumulate proxy votes that together with his votes give him a right to vote over 3% of capital. As stated previously in this report (section A. 10).

Act 17/2007 amended article 34 of Electricity Sector Act 54/1997 of 27 November 1997, by establishing various limits on shareholdings. Said Act provides that voting rights for shares in excess of the percentage established by law are held in abeyance until the amount of shareholdings or voting rights is adjusted. It establishes certain limits on shareholdings and voting rights in the Company. As a result, in response to the legal mandate, the Ordinary General Shareholders Meeting held on 22 May 2008 approved amendment of articles 5 (Capital) and 14 (Quorum) and the Sole Additional Provision (Special System for SEPI) of the bylaws, and articles 6.3 (Limitations) and 15.8 (Voting) of the General Shareholders Meeting Regulations, in order to adapt them to the requirements of the aforesaid Act.

Thus, as required by the aforesaid regulatory provisions, unless otherwise permitted by law, the sum of the direct and indirect interests in the Company's capital held by any individual or legal person at no time may be greater than five percent of the Company's capital. These shares may not be pooled for any purpose whatsoever. No shareholder may exercise voting rights in excess of three percent. Those engaging in business in the electricity sector, and the individuals or legal persons that directly or indirectly hold greater than five percent interests therein, may not exercise more than one percent of the voting rights. Furthermore, the total stakes held directly or indirectly by parties carrying out activities in the electricity sector may not exceed forty percent.

As an exception to the aforesaid general rule, SEPI is covered by a special system, contained in the new Sole Additional Provision of the bylaws. Pursuant thereto, in accordance with the provisions of the Electricity Sector Act, the limitations established in section 2 of the Third Additional Provision of Act 17/2007 do not apply to SEPI. Nor do those established in the bylaws restricting shareholdings in the Company and voting rights. SEPI in any event will maintain a share interest of not less than 10 percent.

Article 14 of the bylaws provides that shares or other securities the voting rights of which are in excess of the limits set forth in article 5 are not taken into account when computing the quorum for holding the corresponding General Meetings, or when computing the majorities for adoption of resolutions.

Further, in accordance with article 15 of the Bylaws and article 10 of the Meeting Regulations, as required by Act 17/2007, except in cases of public proxy solicitations, which are subject to the applicable legal rules, in each case no individual can accumulate proxies that together with his own votes would give the right to vote over 1% of share capital.

#### Right to Participate and New Technologies

The Shareholders Meeting Regulations also facilitate as far as possible participation of shareholders in matters of interest (right to attend, call, inclusion of points and proposals on the agenda, questions and requests for information and voting).

The Meeting Regulations, in line with the most well-known recommendations in this area, comply with the system established by Act 26/2003 of 17 July 2003 setting forth the rights of shareholders and rules regarding the organisation and procedure of the General Meeting.

Thus it is provided that shareholders owning 5% of capital may request that the board, prior to issuing the call, include any point on the agenda for the next General Meeting. The Board of Directors must include the matters requested in the form that best suits the Company's interest, whenever they refer to matters within the authority of the General Meeting.

Shareholders may also make proposals regarding matters included on the agenda, and make suggestions regarding activities and interests of the Company that, in their judgment, should be discussed at the General Meeting. In both cases, shareholders may make the proposals and suggestions through the Shareholders Office.

Red Eléctrica in 2005 for the first time used the electronic voting system. It was one of the pioneering companies in use of the system. Through the corporate website, [www.ree.es](http://www.ree.es), it allowed shareholders to exercise their voting rights electronically.

During 2006, following the Company's policy of adopting good corporate governance practices, an additional step was taken. New improvements were introduced to facilitate online participation of all shareholders in the Meeting. These measures consisted of:

- ◀ the possibility of remote issuance of proxies and votes. It is particularly notable that 164 shareholders, the holders of 27,825 shares, voted and/or gave proxies electronically;
- ◀ the possibility of obtaining duplicates of attendance cards electronically; and
- ◀ the option of electronically requesting information regarding matters on the agenda for the Meeting.

Following the line of providing its shareholders with advanced online means of exercising their rights, the Board of Directors meeting held on 17 April 2008 approved the rules regarding remote voting and proxies and exercise of the right to information via electronic means for the Ordinary General Shareholders Meeting for the 2007 fiscal year. As an innovation it included the possibility of using the electronic national identity document. The procedure again was a success. 315 shareholders, the holders of 64,670 shares, voted and/or gave proxies electronically. This was more than the 53,186 electronic votes and/or proxies used at the General Shareholders Meeting for the 2007 fiscal year.

**E.4.** Indicate, if applicable, measures adopted to encourage the participation of shareholders in the general meetings.

The Meeting Regulations specifically provide for the right of participation, developed in article 7 and explained in detail in Section E.3 above, which should be consulted.

Regarding the use of electronic voting also see section E.3 above.

**E.5.** Indicate if the position of chairman of the general meeting coincides with the position of chairman of the board of directors. If so, describe the measures adopted to guarantee the independence and proper functioning of the general meeting: YES  NO

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**Description of the measures.**

As provided in the Company regulations, the position of chairman of the General Meeting coincides with the position of chairman of the Board of Directors.

As indicated in article 12 of the General Shareholders Meeting Regulations, the General Meeting will be chaired by the chairman of the Board of Directors, and in his absence by the vice chairman with highest rank or greatest seniority in the position. In his absence, it will be chaired by the person appointed by the Board of Directors and, if no appointment has been made, by the director or shareholder freely chosen by the shareholders attending each meeting.

The secretary or assistant secretary of the Board of Directors, as the case may be, will act as secretary of the meeting. If both are absent, the secretary of the meeting will be the director or shareholder freely chosen by the shareholders attending each meeting.

The chairman will chair the meeting, establishing the order of deliberations and presentations; he will decide the method of voting on resolutions; resolve any questions, clarifications or complaints arising in respect of the agenda, the list of attendees, share ownership, delegations or proxies, quorum requirements and requirements for adoption of resolutions by the Meeting, or the bylaws limit on voting rights; he will recognise shareholders who so request, withdrawing or not giving recognition when he deems the matters in question have been sufficiently deliberated.

Article 5 of the Meeting Regulations establishes a series of measures to ensure the independence and proper functioning of the General Meeting. It provides that General Meetings, both ordinary and extraordinary, will be called by publication of a notice by the Board of Directors in the Official Gazette of the Commercial Register and in one of the newspapers with widest circulation in Madrid, at least one month prior to the date set for holding of holding the Meeting, without prejudice to calling the meeting with more advance notice than required by law and the bylaws, as is customary practice of the Company, to make it as easy as possible for shareholders to plan their participation.

The notice will indicate the date of the meeting on first call and the matters included on the agenda. It may also state the date of second call. Between both calls, at least twenty-four hours must elapse. When a second call is not provided for and the General Meeting cannot be held, it will be announced in the same manner as the first call, within fifteen days after the date on which it was not held, and at least eight days prior to holding the second meeting. In the notice, the board will state the likely date for the meeting on first or second call.

Meetings may be held at the registered office of the Company or any other location in the city where the head office is located. The call will announce the place and time where shareholders can consult the documents to be submitted for approval of the Meeting, without prejudice to the ability of any shareholder attending to

request and receive these documents free of charge. The call of the Meeting will also be posted on the Company website and a copy sent to the exchanges on which the Company shares are listed.

The board must call an Extraordinary General Meeting if shareholders owning 5% of capital submit a reasoned request to that effect, specifying the matters to be dealt with at the meeting, which must be among those for which the General Meeting has authority. In this case, the Meeting will be called for a date within thirty days following the date the request was made through a notary to the Board of Directors, and the Board will draft the agenda, including the matters stated in the request in the form that best suits the Company's interest.

If the General Meeting is not called by the Board of Directors despite the requirement that it do so, it may be held, at the request of shareholders and in the presence of the board, by the judge having jurisdiction over the Company's registered office who, if applicable, will appoint the person to chair it.

The quorum necessary for the General Meeting is established in article 14 of the Bylaws and in article 11 of the Meeting Regulations. The Bylaws and the General Shareholders Meeting Regulations do not contemplate any difference in respect of the provisions established in articles 102 and 103 of the Corporations Act. As indicated below, in 2003 the minimum requirement of shares (50) for attending the General Meetings was eliminated from the bylaws.

Article 15 of the Meeting Regulations contains the rules to be followed for the correct functioning of the General Shareholders Meeting. This article provides that, prior to addressing the matters on the agenda, a list of those attending will be prepared, stating the status or representation of each and the number of shares represented by them, either personally or by proxy. The number of shareholders present in person or by proxy will be totalled at the end of said list, as well as the amount of capital owned, by way of summary specifying those corresponding to shareholders with voting rights, all of which will be verified by the secretary.

Once the meeting has been convened, the secretary will read the information on the call and attendance based on the attendance list. Based on the list of those attending, the chairman, if appropriate, will declare the meeting to be validly constituted. If a notary is present at the request of the Company to prepare the minutes of the meeting, he will ask those attending if there is any objection or protest regarding the shareholder attendance data and capital as stated by the chairman.

In the Ordinary General Meeting the chairman will report to the Meeting on the most significant matters during the fiscal year and the proposals of the board, or his presentation may be completed by the individuals authorised by him.

The chairman of the Audit Committee will be available to the Meeting to respond to any questions presented by the shareholders on matters within his authority.

Upon conclusion of all pertinent presentations, the chairman will give the floor to shareholders who so request, directing and coordinating the deliberations, following the Agenda established except as allowed by Articles 131 and 134 of the Spanish Corporations Act.

Article 15.8 of the Meeting Regulations establishes that each share gives the right to one vote as established in the Bylaws, subject to the limits set out therein as required by the Electricity Sector Act. During this fiscal

year there was a small amendment of the aforesaid article, discussed in section E.6 below, to adapt the reference in the rule to the new provision introduced into Act 17/2007.

The chairman will also decide on the most suitable method for proceeding with a vote in each case, announcing it publicly in the General Meeting with sufficient time prior to proceeding with the vote.

Article 15 of the Meeting Regulations allows the possibility of establishing electronic voting systems, as long as the identity of the voter and his status as shareholder or proxy are shown and the number of shares voted by him is stated clearly and unequivocally, as well as the sense of the vote or abstention, as applicable.

Article 17 of the Bylaws and article 15.9 of the General Shareholders Meeting Regulations do not include any differences from the provisions established in current law, but rather only establish that resolutions will be adopted by majority vote, except when a higher majority is required by law.

The foregoing is also without prejudice to the rights to information and to attend described in detail in Section E.3 of this Report.

**E.6. Indicate, if applicable, modifications made to the General Meeting Regulations during the fiscal year.**

The amendment of the Meeting Regulations, like the bylaws amendment that was made, was intended to comply with the legal mandate to adapt them to the new structure contemplated in Act 17/2007, in a manner coordinated with separation of businesses into subsidiaries, approved by the General Shareholders Meeting.

Regarding the Meeting Regulations the approved amendment only affects two articles. One is article 6.3, on limitations of shareholder rights, the purpose of which is simply to change the reference made in the rule in accordance with the new provision introduced into Act 17/2007. The second is article 15.8, regarding voting, the purpose again being to change the reference made in the rule.

The result is that article 6.3 of the Meeting Regulations is amended to read as follows:

*Article 6.3- Limitations*

*The rights of shareholders are subject to the limitations established in the Third Additional Provision of*

Act 17/2007 of 4 July 2007 ("Act 17/2007") and in article 34 of the Electricity Sector Act, set forth in the current bylaws.

*Article 15.8 Voting.*

*Each share gives the right to one vote as established in the bylaws, subject to the limits set out therein as required by the Electricity Sector Act and the Third Additional Provision of Act 17/2007.*

*The chairman will submit such matters as are substantially independent for separate voting, so that shareholders may separately exercise their voting preferences. In particular, the following will be submitted for separate voting:*

- (i) Appointment, ratification or removal of each of the directors; and*
- (ii) Amendments of the bylaws, with votes taken on all articles or groups of articles that are substantially independent.*

*The chairman will decide on the most suitable method for proceeding with a vote in each case, announcing it publicly in the General Meeting with sufficient time prior to proceeding with the vote.*

*Nevertheless the following deductive methods may be used to facilitate voting:*

- (i) With the exception of votes against, votes in blank and abstentions expressly stated to the secretary of the Meeting, or if applicable to the notary present thereat, in the manner decided by the chairman, all shares present may be treated as votes in favour of the board proposal on a matter included on the agenda.*
- (ii) With the exception of votes in favour, votes in blank and abstentions expressly stated to the secretary of the Meeting, or if applicable to the notary present thereat, in the manner decided by the chairman, all shares present may be treated as votes against proposed resolutions on matters not included on the agenda, or proposals alternative to those of the board.*

*In the two preceding cases the statement to the secretary or, if applicable, notary may be made individually*

*in respect of each of the points of the agenda, or on a joint basis for several or all of them. The secretary will deliver the list prepared by the scrutineers, together with the notary if one participates, to the chairman with the results of the vote on each proposal. The list prepared by the scrutineers must show all votes, stating the identity of the one voting, the capacity in which the vote is issued (shareholder or proxy) and the sense of the vote or, if applicable, the abstention. The notary, if any, will reflect it in the minutes in the same manner.*

*Shareholders entitled to attend and vote may cast their votes on proposals related to matters included on the agenda by mail, e-mail or any other remote means of communication, provided that the identity of the person exercising the voting right is duly ensured, as provided in the applicable regulations, and in the Bylaws, General Meeting Regulations and rules complementing and implementing those regulations, if applicable approved by the Board of Directors.*

*Votes by mail will be cast by sending the Company a document evidencing the vote, accompanied by the attendance card issued by the entity or entities responsible for maintaining the book entry register, or if applicable by the Company.*

*Votes by e-mail will be cast using a recognised electronic signature or other form that the Board of Directors concludes will be suitable to ensure the authenticity and identity of the shareholder exercising the voting right.*

*Votes cast using any of the means contemplated in the preceding two paragraphs must be received by the Company before midnight (12:00 a.m.) on the day immediately prior to the day contemplated for holding the General Meeting on first call. If not, the votes will be deemed not to have been cast.*

*The Board of Directors, on the technical and legal bases making it possible and properly ensuring the identity of the person exercising the voting right, is authorised to implement the foregoing provisions by establishing rules, means and procedures appropriate to the state of the art, in order to implement the casting of votes and extension of proxies by electronic means, if applicable adapting to the regulations issued for that purpose.*

*In particular the Board of Directors may regulate the use of alternatives to the electronic signature for issuing electronic votes, and reduce the advance term for the Company's receipt of the votes cast by mail, e-mail or any other remote means of communication, as contemplated in the foregoing paragraphs.*

*In any event the Board of Directors will adopt the measures necessary to avoid duplicates and ensure that those issuing votes are duly authorised to do so in accordance with the provisions of article 15 of the Bylaws.*

*The implementing rules adopted by the Board of Directors under the provisions of this article, as well as the means, procedures and forms established for granting proxies and exercising remote voting rights will be published on the Company's website.*

*Personal attendance at the General Meeting by the shareholder or proxy will have the effect of revoking the vote cast by mail, e-mail or any other remote means of communication.*

**E.7.** Give figures for attendance at the General Meetings held in the fiscal year to which this report refers:

Date of general meeting	Attendance data				
	% attendance in person	% attendance by proxy	% remote voting		Total
			Electronic voting	Others	
22/05/08	22.635	29.374	0.048	--	52.057

**E.8.** Briefly state resolutions adopted in the general meetings held during the fiscal year referred to in this report and the percentage of votes for the adoption of each resolution.

Resolutions adopted	In favour	Against	Abstentions
1. Approve the financial statements (balance sheet, profit and loss, notes) and the management report for Red Eléctrica de España, S.A. for the 2007 fiscal year.	98.208%	0.052%	1.740%
2. Approve the Consolidated Financial Statements (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Net Worth, Consolidated Cash Flow Statement and Notes to the Consolidated Financial Statements) and the Management Report for the Consolidated Group of Red Eléctrica de España, S.A. for the 2007 fiscal year.	98.204%	0.053%	1.743%
3. Approve allocation and distribution of profits for the 2007 fiscal year.	99.996%	0.029%	0.005%
4. Approve the management performance of the Board of Directors of Red Eléctrica de España, S.A. for the 2007 fiscal year.	97.773%	0.255%	1.972%
5. Approve the re-election and appointment of directors.	86.144%	11.479%	2.377%
6. Approve the proposal to separate the functions of system operator, electricity transmission network manager and transmission company into subsidiaries, in accordance with the mandate in Act 17/2007 of 4 July 2007.	99.789%	0.028%	0.183%
7. Amendment of the bylaws regarding (i) the name and legal form of the Company; (ii) the corporate purpose; (iii) the capital; (iv) the share register; (v) the quorum; (vi) the scope of the bylaws; (vii) the special system for SEPI; and (viii) the repeal of the transitional provisions; in order to adapt them to the requirements of Act 17/2007 of 4 July 2007.			
7.1. Amend article 1 "Name and Legal Form" and article 2 "Corporate Purpose".	99.070%	0.470%	0.460%
7.2. Amend article 5 "Capital", article 6 "Share Register" and article 14 "Quorum".	97.371%	1.040%	1.589%
7.3. Amend article 33 "Scope of Bylaws"	99.072%	0.470%	0.458%
7.4. Amend the Sole Additional Provision "Special System for SEPI" and repeal the Transitional Provisions (First and Second)	99.072%	0.470%	0.458%
8. Amend the General Shareholders Meeting Regulations in order to adapt them to the requirements of Act 17/2007 of 4 July 2007 related to limitations on shareholder rights and voting on matters:			

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Resolutions adopted	In favour	Against	Abstentions
8.1 Amend article 6.3 "Limitations"	97.583%	0.833%	1.584%
8.2 Amend article 15.8 "Voting"	97.584%	0.833%	1.583%
9. Authorise the Company's Board of Directors to acquire treasury shares on the market:			
9.1. Authorise acquisition of treasury shares on the market and, if applicable, direct delivery to employees and inside directors of the company and of the companies in its Consolidated Group.	99.781%	0.040%	0.179%
9.2. Authorise their delivery as compensation to members of Management and inside directors of the Company and those of the companies in its Consolidated Group.	98.249%	0.035%	1.716%
9.3. Revoke prior authorisations.	99.784%	0.032%	0.184%
10. Ratify the Board of Directors resolutions setting their compensation for the 2007 fiscal year.	87.833%	0.029%	12.138%
11. Delegate authority to the Board of Directors to fully implement resolutions adopted at the General Shareholders Meeting.	99.992%	0.003%	0.005%
12. Report to the General Shareholders Meeting on amendments of the Board of Directors Regulations approved at the board meeting of 20 December 2007.	Para inf.	Para inf.	Para inf.
13. Report to the General Shareholders Meeting on the Annual Corporate Governance Report of Red Eléctrica de España, S.A. for the 2007 fiscal year.	Para inf.	Para inf.	Para inf.
14. Report to the General Shareholders Meeting on items contained in the Management Report related to articles 116 bis of the Securities Market Act.	Para inf.	Para inf.	Para inf.

**E.9.** State whether there is a bylaws restriction establishing a minimum number of shares necessary to attend the General Meeting: YES  NO

Number of shares necessary to attend the General Meeting

1

**E.10. State and explain the Company's policies in respect of proxies at General Meetings:**

The Company has no specific policy on proxies in General Shareholders Meetings. Notwithstanding the foregoing, the Bylaws and the Meeting Regulations establish specific conditions for proxies at Meetings.

In this regard, article 15 of the Bylaws and article 10 of the Meeting Regulations provide that shareholders with the right to attend may appoint another shareholder with the right to attend as a proxy for the General Meeting, in the form established in articles 106 to 108 of the Corporations Act, both inclusive, in respect of the provisions of the Bylaws. Proxies must be conferred in writing and specifically for each Meeting.

Except for cases of public proxy solicitations, which are subject to the prevailing legal provisions, no person can accumulate proxy votes that together with his votes give him a right to vote over 3% of capital. In addition, shares may not be syndicated for any purpose.

As already discussed in this report (section A), Act 17/2007 amended article 34 of Electricity Sector Act 54/1997 of 27 November 1997. Specifically, the second section of the third additional provision of Act 17/2007 establishes new maximum limits on exercise of voting rights, in order to guarantee the independence of a company engaging in regulated activities in the electricity sector that, as provided in Act 54/1997 of 27 November 1997 on the Electricity Sector, constitute an essential service.

*These legal provisions have been included in the bylaws and the General Shareholders Meeting Regulations, as discussed in sections E.5 and E.6 above.*

Thus, any individual or legal person may hold shares in the Company, provided that the sum of its direct and indirect interests in the Company is not more than five percent of capital. Nor can it exercise more than three percent of voting rights. These shares may not be pooled for any purpose whatsoever.

Those engaging in business in the Electricity Sector, and the individuals or legal persons that directly or indirectly hold greater than five percent interests therein, may not exercise more than one percent of the voting rights in the company responsible for operation of the system.

The special system for the State Industrial Ownership Corporation (SEPI) remains in effect, unchanged. SEPI in any event must hold at least a ten per cent (10%) interest.

As such, in accordance with article 15 of the Bylaws and article 10 of the Meeting Regulations, except in cases of public proxy solicitations, which are subject to the applicable legal rules, in each case no individual can accumulate proxies that together with his own votes would give the right to vote over 3% of the capital.

Also notable are the provisions of the bylaws and General Meeting Regulations regarding electronic voting and proxies. They have been successfully applied since 2005, and are discussed in detail in section E 3 above.

As has become customary, the Company facilitated shareholder use of electronic voting and proxies for the Ordinary General Shareholders Meeting held on 22 May 2008, after Board of Directors approval of the corresponding procedure at the meeting held on 17 April 2008.

**E.11.** Indicate if the company is aware of the policy of institutional investors as to whether or not they participate in company decisions: YES  NO

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**Describe the policy**

The relations between the Company and institutional investors are general in nature and are not specific or special for any of them.

On a regular basis, the Company organises informational meetings or road shows at the principal financial centres in Spain and abroad where there is a higher concentration of institutional investors, in order to inform them of its activities and its business performance in an attempt to bring the Company closer to that group of investors.

In no case does the Company disclose to institutional shareholders any information that might place them in a privileged or advantageous situation vis-à-vis the other shareholders.

The Company does not receive any information flowing inversely, i.e. from the institutional investor, apart from such specific information as the investors may disclose to the markets.

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**E.12. Indicate the address and manner of accessing corporate governance content on its website.**

Article 2 of the General Meeting Regulations establishes the content of the corporate website, the purpose of which is to serve as an instrument to ensure the transparency of corporate activities and at the same time allow shareholders greater effectiveness in the exercise of their voting rights, as well as to facilitate the relationship between shareholders and the Company. The Company has been using this form of communication since it became a publicly traded corporation in 1999. The content of the website is updated regularly, extending beyond the requirements of applicable legislation.

To this effect, the Company's website ([www.ree.es](http://www.ree.es)) includes a section that is entered from the home page, dedicated to "shareholders and investors". Said section includes, among other things, a section specifically entitled "Corporate Governance" containing all the information on this matter that may be of interest to the shareholder. Said website includes the following contents, among others, in accordance with the General Shareholders Meeting Regulations:

- ◀ The Bylaws.
- ◀ Meeting and Board Regulations and other corporate governance provisions.
- ◀ Quarterly reports for the fiscal year and annual reports for the past two years, together with reports of the outside auditors.
- ◀ Annual Corporate Governance Report prepared by the Board.
- ◀ Composition of the Board and its committees.
- ◀ Shareholders identified with permanent holdings, both direct and indirect, and their representation on the Board, as well as all private agreements between shareholders which have been disclosed to the Company and the market.
- ◀ Shareholdings of each of the members of the Board.
- ◀ Information contained in the presentations made to different market operators and analysts, intermediaries and significant shareholders.
- ◀ Material disclosures to the CNMV.
- ◀ Resolutions adopted at the last General Meeting, including details on the meeting composition and voting results.

- ◀ Current call of the next General Meeting.
- ◀ Information required to be placed at the disposal of shareholders with the call of the General Meeting.
- ◀ Responses to proposals and suggestions made by shareholders.
- ◀ Communication channels between the Company and shareholders and pertinent explanations regarding the exercise of the right to information, indicating e-mail and postal addresses to which shareholders may address their questions.
- ◀ Means and procedures for appointing proxies for General Meetings, as well as means and procedures for casting votes remotely, with the forms approved for that purpose.

In respect of publicity of resolutions approved by the General Meeting, article 17 of the Meeting Regulations specifies that, without prejudice to the recording of said resolutions in the Commercial Register and legal provisions regarding publication of corporate resolutions as may apply, the Company will provide the text of the resolutions approved and reported to the CNMV as timely material disclosures, on the same day the meeting is held or on the following business day. The text of the resolutions will also be available on the Company website, after it is reported to the CNMV.

Especially important in the 2008 fiscal year was the continuing improvement of the content of the Company website as a communications instrument with shareholders and investors, and its adaptation to the requirements of Order ECO/3772/2003 of 26 December 2003 and CNMV Circular 4/2007. The following may be highlighted:

- ◀ direct and simultaneous retransmission, in Spanish and English, of the Ordinary General Shareholders Meeting held 22 May 2008.
- ◀ direct and simultaneous retransmission, in Spanish and English, of the presentations regarding year-end results and the Company's 2008-2012 Strategic Plan.

State the Company's degree of compliance with the recommendations of the Uniform Good Governance Code.

## F - Degree of compliance with corporate governance recommendations

If the Company does not comply with any recommendation, explain what recommendations, rules, practices or criteria it uses.

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

See items A.9, B.1.22, B.1.23 and E.1, E.2.

Complies  Explain

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

- a) The respective businesses they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies:
- b) The mechanisms in place to resolve possible conflicts of interest.

See items C.4 y C.7

Complies  Complies partially  Explain  Not applicable

**3.** Even when not expressly required under commercial law, any decisions involving a structural 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 to subsidiaries core businesses that were previously conducted 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.

Complies  Complies partially  Explain

**4.** Detailed proposals of the resolutions to be adopted at the General Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.

Complies  Complies partially  Explain

The Company has fully complied with this recommendation as regards all proposed resolution submitted by the Board of Directors to the Ordinary General Shareholders Meeting for the 2007 fiscal year, with the exception of the one related to the election and appointment of directors, since the corresponding proposals of the board were approved at its meeting of 14 May 2008, to be sent to the Ordinary General Shareholders Meeting that was held on the following 22 May.

**5.** Separate votes should be taken at the general shareholders meeting on substantially independent items, so shareholders can express their preferences in each case. This rule will apply in particular to:

- a) The appointment or ratification of directors, with separate voting on each candidate;

b) Changes to the bylaws, with votes taken on all articles or groups of articles that are substantially independent.

See item E.8

Complies  Complies partially  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.

See item E.4

Complies  Explain

**7.** The board should perform its duties with unity of purpose and independent judgment, treat all shareholders equally and be guided by the interest of the company, that being understood to be maximising the economic value of the company on an ongoing basis.

The board also should ensure that in its relationships with stakeholders the company respects the laws and regulations; performs its obligations and agreements in good faith; respects the uses and good practices of the sectors and territories where it conducts business; and observes the additional social responsibility principles that it has voluntarily accepted.

Complies  Complies partially  Explain

**8.** The board as the core components of its mission should be responsible for approving the company's strategy and authorising the organisational resources to implement it, and ensuring 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 general policies and strategies of the company, in particular:
  - i) The strategic or business plan, as well as annual management objectives and budget;
  - ii) The investment and financing policy;
  - iii) Establishment of the structure of the group of companies
  - iv) The corporate governance policy;
  - v) The corporate social responsibility policy;
  - vi) The policy regarding compensation and evaluation of performance of senior management;
  - vii) The risk control and management policy, as well as periodic follow-up of internal reporting and control systems.
  - viii) Dividend policy, as well as treasury shares and, in particular, limits thereon.

See items B.1.10, B.1.13, B.1.14 and D.3

- 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.

See item B.1.14

- ii) Directors' compensation and, in the case of inside directors, the additional consideration for their management duties and other contract conditions.

See item B.1.14

- ii) The financial information 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 that are treated as tax havens, and any other transactions or operations of a comparable nature whose complexity could impair the transparency of the group.
- c) Transactions the company enters into 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 agreements applied on an across-the-board basis to a large number of clients;
2. They are entered into at market rates, generally set by the person supplying the goods or services;
3. Their amount is no more than 1% of the company's annual revenues.

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

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

See items C.1 and C.6

Complies  Complies partially  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 item B.1.1

Complies  Explain

**10.** Outside directors, proprietary and independent, should occupy an ample majority of board positions, while the number of inside directors should be the minimum practical bearing in mind the complexity of the corporate group and the percentage ownership interest they hold in the company.

See items A.2, A.3, B.1.3 and B.1.14

Complies  Complies partially  Explain

**11.** If any outside director can be deemed neither proprietary nor independent, the company should disclose this circumstance and the links this person has with the company or its senior officers, or with its shareholders.

See item B.1.3

Complies  Explain  Not applicable

**12.** Among outside directors, the ratio of proprietary directors to independent directors should match the ratio of 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 cap companies where few or no share interests reach the legal threshold for significant shareholdings, despite the considerable sums actually invested.
2. In companies with a plurality of shareholders represented on the board but not otherwise related.

See items A.2, A.3 and B.1.3

Complies  Explain

**13.** The number of independent directors should represent at least one third of all directors.

See item B.1.3

Complies  Explain

**14.** The category of each director should be explained by the board to the general shareholders meeting, which will make or ratify his appointment. Such categorisation should subsequently be confirmed or revised annually in the annual corporate governance report, after verification by the nominating committee. The report should also disclose the reasons for the appointment of proprietary directors proposed by shareholders with share interests less than 5% of capital; and explain any rejection of a formal request for a board position from shareholders whose share interest is not less than that of others successfully applying for a proprietary directorship.

See items B.1.3 and B.1.4

Complies  Complies partially  Explain

**15.** When female directors are few or nonexistent, the board should state the reasons for this situation and the measures taken to correct it; in particular, the nominating committee should take steps to ensure that:

- a) The process of filling board vacancies has no implicit bias against female candidates:
- b) The company makes a conscious effort to include women with the target professional experience among the candidates for board positions.

See items B.1.2, B.1.27 and B.2.3

Complies  Complies partially  Explain  Not applicable

**16.** 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 right to freely express and adopt positions; he should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant committees.

See item B.1.42

Complies  Complies partially  Explain

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

See item B.1.21

Complies  Complies partially  Explain  Not applicable

Notwithstanding what is indicated above, the Board of Directors believes that, although the literal recommendation is not expressly set forth in its internal corporate governance rules, its spirit and purpose indeed are set forth therein.

Thus, within the Company any director may request call of the board. And if so requested in writing by three directors (regardless of their category), the Bylaws and the Board Regulations provide that the board must meet. For this reason it may be concluded that Red Eléctrica's internal rules not only are consistent with the purpose of the Uniform Code, but give even greater flexibility to calls of the board.

The process of evaluation of the board and its chairman is expressly delegated to the Nominating, Compensation and Corporate Governance Committee.

**18.** The secretary should exercise special care to ensure that the board's actions:

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;
- b) Comply with the company bylaws and the meeting, board and other regulations;
- 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 appointment and removal should be proposed by the nominating committee and approved by a full board meeting; the relevant appointment and removal procedures should be included in the board regulations.

See item B.1.34

Complies  Complies partially  Explain

**19.** The board should meet with the frequency necessary to properly perform its duties, in accordance with a schedule of dates and agendas established at the beginning of the year, each director being entitled to add other agenda items.

See item B.1.29

Complies  Complies partially  Explain

**20.** 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 items B.1.28 and B.1.30

Complies  Complies partially  Explain

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

Complies  Complies partially  Explain  Not applicable

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

- a) The quality and efficiency of the board's operation;
- b) Based on the report submitted by the nominating committee, how well the chairman and chief executive have performed their duties.
- c) The performance of its committees on the basis of the reports furnished by them.

See item B.1.19

Complies  Complies partially  Explain

**23.** All directors should be able to exercise their rights to receive any additional information they require on matters within the board's authority. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the chairman or secretary.

See item B.1.42

Complies  Explain

**24.** All directors should be entitled to call on the company for the advice and guidance they need to perform their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to outside advice at the company's expense.

See item B.1.41

Complies  Explain

**25.** Companies should organise orientation programmes for new directors to supply them rapidly with the information they need on the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so dictate.

Complies  Complies partially  Explain

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

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

See items B.1.8, B.1.9 and B.1.17

Complies  Complies partially  Explain

**27.** The proposal for the appointment or re-appointment of directors that the board submits to the general shareholders meeting, as well as provisional appointments by the method of cooption, should be approved by the board:

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

See item B.1.2

Complies  Complies partially  Explain

**28.** 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 category 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 thereon.

Complies  Complies partially  Explain

**29.** Independent directors should not remain as such for a continuous period of more than 12 years.

See item B.1.2

Complies  Explain

**30.** Proprietary directors should resign when the shareholders they represent fully dispose of their shareholdings. If such shareholders reduce their shareholdings, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See items A.2, A.3 and B.1.2

Complies  Complies partially  Explain

**31.** The board of directors should not propose the removal of any independent director prior to completion of the term of office specified in the bylaws for which the director was appointed, except when the board finds that there is just cause after a report from the nominating committee. In particular, just cause will be presumed when a director is in breach of the duties inherent in his position or affected by one of the circumstances described in section III.5 (Definitions) of this Code.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction produces changes in the capital structure of the company, in order to meet the proportionality criterion set out in recommendation 12.

See items B.1.2, B.1.5 and B.1.26

Complies  Explain

**32.** Companies should establish 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, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

If a director is indicted or tried for any of the crimes indicated in article 124 of the Corporations Act, the board should examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not he should be called on to resign. The board should also disclose all such determinations in the annual corporate governance report.

See items B.1.43 and B.1.44

Complies  Complies partially  Explain

**33.** All directors should express clear opposition when they feel a proposal submitted for the board's approval might harm the corporate interest. In particular, independent 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, he must draw the pertinent conclusions. Directors resigning for such causes should explain their reasons in the letter referred to in the next recommendation.

This recommendation should also apply to the secretary of the board; director or otherwise.

Complies  Complies partially  Explain  Not applicable

**34.** Directors who give up their positions before their tenure expires, through resignation or otherwise, should explain their reasons in a letter to be sent to all members of the board. Regardless of whether such resignation is sent as a material disclosure, the reasons must be explained in the annual corporate governance report.

See item B.1.5

Complies  Complies partially  Explain  Not applicable

**35.** The company's compensation policy, as approved by its board of directors, should cover at least the following matters:

- a) The amount of the fixed components, itemised where necessary, of board and board committee attendance fees, with an estimate of the fixed annual payment they give rise to;

- b) Variable components, in particular:
- i) The types of directors they apply to, with an explanation of the relative weight of variable to fixed compensation items.
  - ii) Performance evaluation criteria used to calculate entitlement to the award of shares or share options or any performance-related compensation;
  - iii) The main parameters and grounds for any system of annual bonuses or other, non-cash benefits; and
  - iv) An estimate of the sum total of variable payments arising from the compensation policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.
- c) The principal characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.
- d) The conditions to apply to the contracts of inside directors exercising senior management functions. Among them:
- i) Term;
  - ii) Notice periods; and
  - iii) Any other clauses covering hiring bonuses, as well as indemnities or golden parachutes in the event of early termination of the contractual relation between company and the inside director.

See item B.1.15

Complies  Complies partially  Explain

**36.** Compensation in the form of 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 pension plans should be limited to inside directors.

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

See items A.3, B.1.3

Complies  Explain

**37.** Outside directors' compensation should sufficiently compensate them for the dedication, abilities and responsibilities that the position entails, but should not be so high as to compromise their independence.

Complies  Explain

**38.** In the case of compensation linked to company earnings, deductions should be computed for any qualifications stated in the outside auditor's report that reduce those earnings.

Complies  Explain  Not applicable

**39.** In the case of variable awards, compensation 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.

Complies  Explain  Not applicable

**40.** The board should submit a report on the directors' compensation policy to the advisory vote of the general shareholders meeting, as a separate point on the agenda. This report can be provided to shareholders separately or in the manner each company sees fit.

The report will focus on the compensation policy the board has approved for the current year with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in compensation policy by comparison to the prior fiscal year. It also will include an overall summary of how the policy was applied over the prior fiscal year.

The role of the compensation committee in designing the policy should be reported by the board, along with the identity of any outside advisors engaged.

See item B.1.16

Complies  Complies partially  Explain

**41.** The notes to the financial statements should list individual directors' compensation for the fiscal year, including:

- a) A breakdown of the compensation obtained by each company director, to include where appropriate:
  - i) Attendance fees and other fixed director payments;
  - ii) Additional compensation for acting as chairman or a member of any board committee;
  - iii) Any payments made under profit-sharing or bonus plans, and the reason for their grant;
  - iv) Contributions on the director's behalf to defined-contribution pension plans, or any increase in the director's vested rights in the case of contributions to defined-benefit plans;
  - v) Any severance packages agreed or paid;

- vi) Any compensation they receive as directors of other companies in the group;
  - vii) The compensation inside directors receive in respect of their senior management positions;
  - viii) Any category of compensation other than those listed above, of whatever nature and provenance within the group, especially when it may be considered to be a related party transaction or when its omission would detract from a true and fair view of the total compensation received by the director.
- b) An individual breakdown of deliveries to directors of shares, share options or other share-based instruments, itemised by:
- i) Number of shares or options awarded in the year, and the terms set for their exercise;
  - ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;
  - iii) Number of options outstanding at the end of the year, specifying their price, date and other exercise conditions;
  - iv) Any change in the year in the exercise terms of previously awarded options.
- c) Information on the ratio in the year of the compensation obtained by inside directors to the company's profits, or some other measure of enterprise results.

Complies  Complies partially  Explain

**42.** 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 items B.2.1 and B.2.6

Complies  Complies partially  Explain  Not applicable

**43.** 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.

Complies  Explain  Not applicable

**44.** In addition to the audit committee mandatory under the Securities Market Law, the board of directors should form a committee, or two separate committees, nominating and compensation.

The rules governing the composition and functioning of the audit committee and the committee or committees for nominating and compensation should be set forth in the board regulations, or include the following:

- a) The board of directors should appoint the members of such committees based on the knowledge, aptitudes and experience of its directors and the tasks of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first meeting of the full board following each committee meeting;
- b) These committees should be comprised exclusively of outside directors and have a minimum of three members. Inside directors or senior officers may also attend meetings, for information purposes, at the committees' express invitation.
- c) Committees should be chaired by independent directors.
- d) They may engage outside 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 items B.2.1 and B.2.3

Complies  Complies partially  Explain

The only qualification on full compliance with the recommendation is the fact that the inside director and chairman of the Company is a member of the Nominating, Compensation and Corporate Governance Committee, by unanimous decision of the Board of Directors, which believes it is appropriate for him to be a member, for more effective functioning thereof, without prejudice to his abstention or absence for all matters that may personally affect him or may lead to a possible conflict of interest.

The foregoing circumstances, their parallelism with the content of recommendations 56 and 58, which require broad participation and cooperation of the chief executive with the Nominating, Compensation and Corporate Governance Committee; the content of recommendation 45 giving the Committee authority to supervise and formulate improvement proposals to the board regarding corporate governance rules, a task in which the chairman of the board plays an important role; and finally the fact that the rest of recommendation 44 is fully complied with, have led to the conclusion that there is compliance with the essential content thereof.

The foregoing reasoning has already been expressed to the National Securities Market Commission, in the month of July 2008, in the Company's Annual Corporate Governance Report for the 2007 fiscal year.

**45.** The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the audit committee, the nominating committee or, as the case may be, separate compliance or corporate governance committees.

Complies  Explain

**46.** All members of the audit committee, particularly its chairman, should be appointed on the basis of their knowledge and background in accounting, auditing and risk management matters.

Complies  Explain

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

Complies  Explain

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

Complies  Complies partially  Explain

**49.** The risk control and management policy should identify at least the following:

- a) The various kinds of risk (operating, technological, financial, legal, reputation ...) faced by the company, including contingent liabilities and other off-balance-sheet risks among the financial or economic risks;
- b) Setting the risk level the company deems to be acceptable;
- c) The measures contemplated for mitigating the impact of the identified risks, should they materialise;
- d) The internal reporting and control systems to be used to control and manage the referenced risks, including contingent liabilities and off-balance-sheet risks.

See item D

Complies  Complies partially  Explain

**50.** The audit committee's role should be:

1. As regards internal reporting and control systems:
  - a) Monitoring the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, reviewing compliance with legal provisions, appropriate definition of the scope of consolidation, and proper application of accounting principles.
  - b) Periodically reviewing the internal control and risk management systems, so that the principal risks are identified, managed and appropriately disclosed.
  - c) Assuring the independence and effectiveness of the internal audit function; proposing the selection, appointment, re-election and removal of the head of the internal audit function; proposing the budget for that function; receiving periodic information regarding its activities; and verifying that senior management acts on the conclusions and recommendations in its reports.
  - d) Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.
2. As regards the outside auditor:
  - a) Making recommendations to the board for the selection, appointment, reappointment and removal of the outside auditor, and the terms and conditions of its engagement.
  - b) Receiving regular information from the outside auditor on the progress and findings of the audit programme, and verifying that senior management is acting on its recommendations.
  - c) Monitoring the independence of the outside auditor, to which end:
    - i) The company should notify any change of auditor to the CNMV as a material disclosure, accompanied by a statement regarding the existence of disagreements with the outgoing auditor and, if applicable, the substance thereof.
    - ii) The committee should ensure that the company and the auditor adhere to current

- regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;
- iii) The committee should investigate the issues giving rise to the resignation of any outside auditor.
  - d) In the case of groups, the committee should urge the group auditor to take on the auditing of all component companies.

See items B.1.35, B.2.2., B.2.3 and D.3

Complies  Complies partially  Explain

The Board of Directors believes it is appropriate, as has been the case in the past, for the Audit Committee to supervise and control the process of selection, appointment and removal of the head of the internal audit function, and its action plans, also supervising and approving the resources allocated thereto and among them, and its budget.

Nevertheless, the Board of Directors unanimously believes that the authority to appoint and remove the head of the internal audit function and propose its budget must be in the province of the Company's senior management.

The Board of Directors believes that the authority to supervise and control the process, more extensive than that of simply making proposals, strengthens and clarifies the content of the recommendation itself, ensuring the suitability of the one responsible for the internal audit service and control by the Audit Committee itself of that suitability, at the same time respecting the customary channels for appointing those responsible for the various management areas within the Company.

The foregoing reasoning has already been expressed to the National Securities Market Commission, in the month of July 2008, in the Company's Annual Corporate Governance Report for the 2007 fiscal year.

**51.** The audit committee should have authority to meet with any Company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies  Explain

**52.** The audit committee should prepare information on the following points from recommendation 8 for input to board decision-making:

- a) The financial information that all listed companies must periodically disclose. The committee should ensure that interim statements are prepared under the same accounting principles as the annual statements and, to this end, may ask the outside auditor to conduct a limited review.
- b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories that are treated as tax havens, and any other transactions or operations of a comparable nature whose complexity could 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 items B.2.2 and B.2.3

Complies  Complies partially  Explain

**53.** The Board of Directors should seek to present the financial statements to the general meeting without reservations or qualifications in the audit report. should such reservations or qualifications exist, both the chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See item B.1.38

Complies  Complies partially  Explain

**54.** The majority of nominating committee members (or nominating and compensation committee members, as the case may be) should be independent directors.

See item B.2.1

Complies  Complies partially  Explain

Of the four members of the Nominating and Compensation Committee three are outside directors. Of these, two are independent directors, and constitute a relative but not absolute majority.

Further to the discussion of recommendation no. 44, it again must be stated that independent directors have a voting majority on the Nominating Compensation and Corporate Governance Committee, because in the hypothetical case of a tie between independent and other directors the chairman, who necessarily must be an independent director, has a casting vote.

**55.** The nominating 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 transfer proceeds in a planned and orderly manner.
- c) Report on the senior officer appointments and removals that 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 item B.2.3

Complies  Complies partially  Explain  Not applicable

**56.** The nominating committee should consult with the company's chairman and chief executive, especially on matters relating to inside directors.

Any director may suggest directorship candidates to the nominating committee for its consideration.

Complies  Complies partially  Explain  Not applicable

**57.** The compensation 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 compensation policy for directors and senior officers;
  - ii) The individual compensation and other contractual conditions of inside directors.
  - iii) The standard conditions for senior officer employment contracts.
- b) Oversee compliance with the compensation policy set by the Company.

See items B.1.14, B.2.3

Complies  Complies partially  Explain  Not applicable

**58.** The compensation committee should consult with the chairman and chief executive, especially on matters relating to inside directors and senior officers.

Complies  Explain  Not applicable

## G - Other information of interest

If you believe there is any other relevant principle or aspect of your company's corporate governance practices that has not been addressed by this report, please give details.

This section may be used to supply any additional information, clarification or qualification relating to the preceding sections of this report. In particular, state whether your company is subject to the corporate governance legislation of countries other than Spain and, if so, include any information that the company is required to disclose that is not required in this report.

### Binding definition of independent director

State whether any of the independent directors has or has had any relationship with the company, its significant shareholders or its officers that, had it been sufficiently significant or important, would have resulted in the impossibility of treating the director as an independent director under the definition set forth in section 5 of the Uniform Corporate Governance Code:

YES  NO

Name of director	Type of relationship	Explanation
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This Annual Corporate Governance Report was approved by the Company's Board of Directors at its meeting of 24 February 2009, after a favourable report from the Nominating, Compensation and Corporate Governance Committee and the Audit Committee, both held on 19 February.

State whether there are any directors who voted against or abstained from voting to approve this report.

YES  NO

Name of the director not voting in favour of approval of this report	Reason (opposed, abstained, not in attendance)	Explain the reason

### Compensation of the Board of Directors

Further to the information set forth in sections B.1.11 to B.1.16 of this report, it must be noted that during the 2008 fiscal year the total compensation earned by members of the Board of Directors of the parent company was 2,486,000 euros. This figure includes both the estimate of compensation tied to results and the salaries of those members of the board who are employees.

Total compensation of members of the Board of Directors of the Company during the 2008 fiscal year, in thousands of euros, broken down by director, is as follows:

	Thousands of euro				Total
	Fixed remuneration	Variable remuneration	Expenses for attending Board of Directors Meetings and Commissions	Life assurance and pension plan allocations	
Mr. Luis M <sup>a</sup> Atienza Serna	388	297	85	12	782
Mr. Pedro Rivero Torre <sup>(2)</sup>	-	37	36	-	73
Mr. Juan Gurbindo Gutiérrez <sup>(1)(2)</sup>	-	37	41	-	78
Mr. Antonio Garamendi Lecanda	-	96	91	-	187
Mr. Manuel Alves Torres <sup>(1)</sup>	-	96	85	-	181
Mr. José Riva Francos <sup>(2)</sup>	-	37	25	-	62
Mr. José Manuel Serra Peris <sup>(2)</sup>	-	37	28	-	65
Mr. Rafael Suñol Trepapat	-	96	62	-	158
Ms. M <sup>a</sup> de los Ángeles Amador Millán	-	96	85	-	181
Mr. Francisco Javier Salas Collantes	-	96	85	-	181
Mr. Martín Gallego Málaga	-	96	61	-	157
Mr. José Folgado Blanco <sup>(3)</sup>	-	58	30	-	88
Ms. Arantza Mendizábal Gorostiaga <sup>(3)</sup>	-	58	48	-	106
Mr. José Rodrigues Pereira Dos Penedos <sup>(3)</sup>	-	58	30	-	88
Ms. M <sup>a</sup> Jesús Álvarez <sup>(1)(3)</sup>	-	58	41	-	99
<b>Total remuneration accrued</b>	<b>388</b>	<b>1,253</b>	<b>833</b>	<b>12</b>	<b>2,486</b>

(1) Amounts received by Sociedad de Participaciones Industriales (SEPI)

(2) Stepped down from their position as Board Members in 2008

(3) Joined the Board of Directors in 2008

In addition, in 2008, in his capacity as a member of the Board of Directors of REN, the inside director received compensation in an amount of 30 thousand euros. At the request of the inside director himself, this amount has been deducted from his fixed annual compensation.

The Company also has established a compensation plan for executives (including the inside director) tied to meeting three-year (2006-2008) objectives. At 31 December it is pending evaluation and approval. It will be paid, if applicable, during the 2009 fiscal year.

There are guarantee or protection clauses in favour of inside directors to cover dismissals or changes of control. This agreement was proposed by the Company's Nominating, Compensation and Corporate Governance Committee and approved by the Board of Directors. Said clauses follow standard market practice and cover the termination of the employment relationship, providing for indemnification of one year's salary, unless applicable regulations provide for a higher amount.

At 31 December 2008 the balance sheet reflected no loans, advances or guarantees established by the Company in favour of members of the Board of Directors. Nor at those dates were there any pension liabilities incurred vis-à-vis members of the Board of Directors.

During the 2008 fiscal years the members of the Board of Directors have not engaged in any transactions with the Company or Group companies, directly or through persons acting on their behalf, outside the ordinary course of business or not effectuated on normal market conditions.

### **Subsidiarisation**

Regarding section F.3 of this report, it must be noted that in July 2008 the Company completed a process of corporate reorganisation to adapt to the aforesaid Act 17/2007 of 4 July 2007. It changed its corporate name to Red Eléctrica Corporación, S.A. It transferred its former corporate name to its subsidiary Red Eléctrica de España TSO, S.L.U., which came to be called Red Eléctrica de España, S.A.U. It transformed that subsidiary from a limited liability company (sociedad limitada) to a

corporation (sociedad anónima) and contributed to it the businesses of system operation, transmission network management and transmission, with the personnel and resources, assets and liabilities used in the conduct of those regulated businesses, with certain exceptions.

These corporate transactions were approved by the Ordinary General Shareholders Meeting held on 22 May 2008.

The information regarding the changes is expanded upon in the Annual Reports of the Company and its subsidiary Red Eléctrica de España, S.A.U.

#### **Director attendance at meetings**

For the 11 meetings of the Board of Directors held in 2008, there were only two (2) proxies, one by reason of illness.

#### **Independent Director's Statute**

The Board of Directors, at its meeting of 18 December 2008, on proposal of the Nominating, Compensation and Corporate Governance Committee, resolved to repeal the Independent Director's Statute, because its content had been incorporated in the Company's current Board of Directors Regulations.

#### **Other information of interest**

Further to the information provided in section B.1.3, which, together with other information, succinctly summarises the training and career of each of the independent outside directors on the Board of Directors, and in order to also expand on that information regarding the other members of the Board of Directors of Red Eléctrica Corporación, S.A., set forth below is the same information regarding the inside director and the proprietary outside directors:

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**Chairman, inside director**

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**Luis M<sup>a</sup> Atienza Serna**, born 30 August 1957.

Degree in Economics and Business, Universidad de Deusto; Certificate in Advanced European Studies, Universidad de Nancy (France), Centre for Advanced European Studies; Certificate in Development Economics (D.E.A.), Universidad de Nancy, School of Law and Economics.

Formerly:

Minister of Agriculture, Fisheries and Food. General Secretary for Energy and Mineral Resources, Ministry of Industry and Energy. Chairman, Institute for Energy Savings and Diversification (IDAE). Chairman, Spain Geomining Technological Institute. Chairman, Centre for Energy, Environmental and Technological Research (CIEMAT). General Secretary, Agrarian Structures, Ministry of Agriculture, Fisheries and Food. Economic Councillor, Basque Government. Member of the Basque Parliament. Professor, School of Economics and Business and International Business Administration Institute and Institute for European Studies, Universidad de Deusto. Member of the Boards of Directors of Instituto Nacional de Hidrocarburos (INH), Corporación Logística de Hidrocarburos (CLH) Ente Vasco de la Energía (EVE). He has given many courses, seminars and lectures, and has published articles on economic, energy and agrarian policy and European research in economic and general publications, including working documents for university institutes and research centres.

Currently:

Member of the Board of Directors of Redes Eléctricas Nacionais, SGPS, S.A.

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**Proprietary outside director proposed by SEPI**

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**Rafael Suñol Trepal**, born 4 July 1944.

Degree in Economics and Business, E-1969, ADE-ESADE 1980, PADE-IESE 1999.

Formerly:

Managing director of Aurica, SCR, S.A., partner of Socios Financieros and president of Activa Ventures. Director and Vice Chairman of Fecsa and director of Endesa. Managing Director of Banco de Fomento. Chairman of Banco de Crédito Industrial and director of ICO. Assistant General Manager of GDS, Caja de Barcelona, after working for Banco Urquijo, Barcelona. Chairman of Crédito & Docks and of Dinvergestión, and director of companies related to Banco Central. Director of Ericsson España, Frida Alimentaria and Visual Tools, and chairman of Cobrhi.

Currently:

Executive Vice Chairman, Catalana de Iniciatives SCR, director of Abantia-Tycsa, Peugeot España, Inypsa, Telstar and Serveis Funeraris de Barcelona.

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**Proprietary outside director proposed by SEPI**

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**Manuel Alves Torres**, born 18 March 1954.

Degree in Economics and Business.

Formerly:

Head of Budgeting, Standard Eléctrica, S.A. Advanced Technician, Assistant Manager of Companies, Corporate Sub-Manager, INI. Manager of Planning and Supervision, Teneo. Member, Boards of Directors of Potasas de Subiza, Potasas de Suria, Grupo Ence, Grupo Inespal, Enatcar, Clínica Castelló, Minas de Almagrera, Agencia Efe, Binter Canarias and Hipódromo de la Zarzuela and Sedettur.

Currently:

Director of Planning and Control, SEPI. Member, Management Committee, SEPI. Board Member, SEPI Foundation (formerly Public Company Foundation) and SEPI Employment Foundation. Director, Tragsa.

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**Proprietary outside director proposed by SEPI**

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**María Jesús Álvarez González**, born 21 June 1957.

Degree in law, economics and business.

Formerly:

Director of Enusa Industrias Avanzadas, S.A., of Equipos Nucleares, S.A., of Clínica Castelló, S.A., of Indra Sistemas, S.A., of Infoinvest, S.A., of Infoleasing, S.A., of Empresa Nacional de Residuos Radioactivos, S.A. (ENRESA) and of Aluminio Español, S.A.

She has held various management positions within SEPI and engaged in various activities in the banking and industrial sector.

Currently:

Economic and Financial Manager of SEPI and a member of its Management Committee, a member of the Board of Directors of Agencia Efe, S.A., of the Fundación SEPI and of the Fundación Laboral SEPI.

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## I. AUDIT COMMITTEE ACTIVITIES REPORT FOR THE 2008 FISCAL YEAR

### 1. INTRODUCTION

The Action Plan of the Audit Committee for the 2009 fiscal year contemplates the preparation of a report on the Committee's activities during 2008, in the month of February. This report is to be incorporated in this Annual Corporate Governance Report of the Company.

### 2. STRUCTURE, COMPOSITION AND FUNCTIONS

#### 2.1 Structure and composition

The Audit Committee is comprised of three members, pursuant to article 23 of the Bylaws and article 13 of the Board Regulations, who are appointed to their positions for a period of three years. As provided in current regulations, the Audit Committee will be comprised of a number of members to be determined by the Board of Directors, from a minimum of three to a maximum of five, all outside directors.

The chairman of the committee is elected by its members from among the independent directors who are members thereof, and the secretary is the secretary of the Board of Directors.

Throughout 2008 the Committee was comprised of only outside directors, with a majority of independent directors.

Nonetheless, it must be noted that in 2008 the following replacements were made on the Audit Committee:

- ◀ Mr. Pedro Rivero Torre, an independent director, who when he ceased to be a director on 22 May 2008 was no longer a part of that committee.
- ◀ Mr. Manuel Alves Torres, a proprietary director, who ceased to be a member of that committee on 20 June 2008.

To fill the foregoing two vacancies the Board of Directors, at its meeting of 20 June 2008, appointed, respectively, the independent director Ms. Arantza Mendizábal Gorostiaga and the proprietary director Ms. María Jesús Álvarez González, who joined the meetings of the committee on 17 July 2008, after having been appointed as directors by the Company's Ordinary General Shareholders Meeting of 22 May 2008.

Following the aforesaid changes, the composition of the Company's Audit Committee at 31 December 2008 is as follows:

◀ Francisco Javier Salas Collantes (independent director)	Chairman
◀ Arantza Mendizábal Gorostiaga (independent director)	Member
◀ María Jesús Álvarez González (proprietary director)	Member
◀ Rafael García de Diego Barber	Non-Director Secretary

The directors belonging to the committee are particularly qualified to hold their positions, with broad professional experience, having held positions of the highest responsibility outside the RED ELÉCTRICA Group, in functions related to those entrusted to the committee. Particularly notable is their appropriate background in economic, financial and accounting matters.

Set forth below are brief summaries of the professional careers of the members:

- ◀ Mr. Francisco Javier Salas Collantes has a degree in Economics, specialising in Business Economics, and throughout his career has held relevant professional positions in economic and financial areas, as well as positions of the highest corporate responsibility; among other positions, he has been a director of Banco Exterior de España, of Argentaria and of Infoleasing, he is a founding member and manager of SAGA Servicios Financieros; he has acted as chairman of INI, TENERE and IBERIA and, among other positions, now is a director of Telvent and chairman of its Audit Committee.
- ◀ Ms. Arantza Mendizabal Gorostiaga holds a degree in economics and a doctorate in economics and is Professor of Applied Economics at the School of Economics of the Universidad del País Vasco

- (UPV-EHU). She has been a distinguished researcher regarding industrial and technological policy, a member, as a congresswoman, of the Economy and Finance Committee of the Congress, a member, as a congresswoman, of the Budget Committee and spokeswoman for the Industry, Trade and Tourism Committee of the Congress. Currently, in addition to acting as a professor, she is Director of the European Documentation Centre of the Universidad del País Vasco (UPV-EHU).
- ◀ Ms. María Jesús Álvarez González holds degrees in law, economics and business from the Universidad Pontificia de Comillas. She has been a member of the boards of directors of Enusa Industrias Avanzadas, S.A., Clínica Castelló, S.A., Indra Sistemas, S.A., Infoinvest, S.A., ENRESA and Aluminio Español, S.A. Currently she is Economic and Financial Manager of SEPI and a member of its Management Committee. Among other positions, she is a member of the Liquidating Board of the public entity RTE and a director of Agencia EFE, S.A., of Fundación SEPI and of Fundación Laboral SEPI.

The secretary of the committee is Mr. Rafael García de Diego Barber, the secretary of the board of directors and the Company's general counsel.

Also regularly attending meetings of the committee are the assistant to the chairman, Mr. Javier de Quinto Romero, the head of the internal audit function until September 2008, Mr. Luis Villafruela Arranz, the head of that function thereafter and the general manager of administration and finance, Ms. Esther Rituerto Martínez, to report on various matters in their areas of responsibility.

As regards review of the financial statements of the Company and its group for the 2007 fiscal year, the corresponding meeting was attended by the economic manager, Mr. José Manuel Rodríguez Gil; the outside auditor of the Company and its group for that fiscal year, Price Waterhouse Coopers, which at all times responded to requests for information and clarifications made of it by the members of the committee, and approved the audited financial statements.

## 2.2 Functions

Under article 23 of the Bylaws and article 13 of the Board of Directors Regulations, the Audit

Committee's functions, among others, include support to the Board of Directors regarding monitoring the economic and financial reporting process, internal control of the Company, the independence of the outside auditor, compliance with legal provisions and internal regulations, the Company's shareholders and such authority as may be expressly given to it by the Board of Directors.

Particularly notable within the aforesaid authority are the following:

- 1- In respect of **economic and financial information**, responsibility to monitor the preparation and integrity of the financial information of the Company and, where appropriate, the group, seeing to it that regulatory requirements are respected, the scope of consolidation is appropriately defined, and the applicable accounting principles and criteria are properly applied.

In addition, it has been established that it must report to the board in advance regarding economic and financial information the Company must disclose and send to market supervision agencies. Following the recommendations of the Uniform Good Governance Code, the committee should ensure that interim statements are prepared under the same accounting principles as annual statements and, if it considers it to be appropriate, may ask the outside auditor of accounts to conduct a limited review.

- 2- In respect of **internal control and risk management systems**, the internal audit function has been given responsibility for proper functioning of information systems and internal controls; the Audit Committee is responsible for ensuring the independence and effectiveness of the internal audit function; supervising and controlling the process of selection, appointment, re-election and removal of the head of the internal audit function, as well as its action plans; supervising and controlling resources assigned to the internal audit function and, inter alia, its budget; receiving periodic information regarding its activities; and verifying that senior management is acting on the conclusions and recommendations in its reports.

The head of internal audit should present an annual work programme to the audit committee, report to it directly on any incidents arising during its implementation and submit an activities report at the end of each fiscal year.

In addition, following the recommendations of the Uniform Good Governance Code, the committee must periodically supervise the risk management systems, so that the principal risks are appropriately identified, managed and disclosed; and also must supervise the procedure established by the board allowing employees to communicate potentially significant irregularities, particularly financial and accounting irregularities, that they discover within the Company.

- 3- In respect of **outside audits**, notable is the responsibility for ensuring that the Company makes material disclosure to the CNMV of changes in auditors and, if applicable, disagreements with departing auditors, and also ensuring that the Company, within the scope of its responsibilities, complies with current rules regarding non-audit services, limits on concentration of the auditor's business and, in general, the other rules established to ensure independence of auditors. In the event of resignation of the outside auditor, it must review the underlying circumstances, and verify that senior management is acting on the recommendations of the outside auditor.
  
- 4- In respect of **compliance with legal provisions and internal rules**, the regulations establish an obligation of the Audit Committee to supervise compliance with the Internal Regulations for Conduct on the Securities Market, the procedures for communication of financial and accounting irregularities, and consistency of related party transactions with the Company's interests, with the responsibility to report to the board in advance of such transactions.

- 5- As regards **the Company's shareholders**, the committee will review and, if applicable, will reply to any initiatives, suggestions or complaints raised by the shareholders in the exercise of their rights. It will also inform the General Meeting, as applicable, of any issues within its competence that are raised by the shareholders.
  
- 6- The **other responsibilities** section provides for the duty of the committee to report to the board in the event of transactions creating or acquiring interests in special-purpose vehicles or entities domiciled in countries or territories that are treated as tax havens, and also any transactions and operations that could impair the Group's transparency.

The principal activities undertaken by the Audit Committee during the 2008 fiscal year, based on the groups of authority described above, are described below.

### 3. ACTIVITIES CARRIED OUT DURING THE 2008 FISCAL YEAR

The Audit Committee on 22 February 2008 approved the corresponding Annual Action Plan, in light of its responsibilities under the Bylaws and the Board of Directors Regulations. This plan served as a guide for preparation of the committee's corresponding schedule of meetings.

In addition the Audit Committee reported on its activities to the Board of Directors at its meetings immediately following each meeting of the committee, and provided the directors with copies of the minutes of its meetings.

The Audit Committee met twelve (12) times during 2008, and provided the same number of reports to the Board of Directors.

The Audit Committee in 2008 performed the following tasks:

### 3.1 As regards economic and financial information:

- ◀ Analysis and report to the board on progress of the 2007 fiscal year closing.
- ◀ Analysis and report to the board on the 2008 budget for the RED ELÉCTRICA Group, for submission to the Board of Directors.
- ◀ Analysis and report to the board on the 2008-2012 Investment Plan.
- ◀ Supervision of unified models for requesting information of directors related to the Financial Statements, Annual Corporate Governance Report and Internal Regulations for Conduct on the Securities Market.
- ◀ Analysis and report to the board on the proposal for distribution of an additional dividend for the 2007 fiscal year.
- ◀ Review of the 2007 financial statements of RED ELÉCTRICA and its group, to be presented to the board for reporting purposes, and a review of the outside auditor's opinion.
- ◀ Supervision of the sections of the Company's Annual Corporate Governance Report for the 2007 fiscal year within the scope of the Committee's authority.
- ◀ Analysis of the principal impacts of the new Spanish General Accounting Plan on the company's accounts.
- ◀ Analysis of intragroup transactions within the RED ELÉCTRICA Group.
- ◀ Monitoring of the quarterly reports on the Company's treasury share management.
- ◀ Analysis of the implications of the new CNMV regulations on periodic official information to be provided to the CNMV.
- ◀ Analysis and report to the board on the proposed distribution of an interim dividend for the 2008 fiscal year.
- ◀ Supervision of the content of the Debt and Derivatives Registration Document for 2009, to be registered with the National Securities Market Commission.
- ◀ Analysis of the closing schedule for the 2008 fiscal year.
- ◀ Analysis of the steps and schedule contemplated for preparing and notifying audited results for the first semester of the year, in accordance with the newly applicable rules.
- ◀ Periodic review of official economic and financial information sent to the CNMV.

### 3.2 As regards internal control and risk management systems:

- ◀ Analysis of the Overall Risk Management Report at 31 December 2007 and the individual risk sheets; analysis of the "Risk Map. Summary Sheets" document.
- ◀ Review and monitoring of the Project for Review of Internal Control of Financial Reporting (SOX Project).
- ◀ Analysis of certain high-level material risks selected by the Committee, as a part of the established annual process.
- ◀ Updating the risk policy to adapt it to the latest changes in the Board of Directors Regulations and other good corporate governance practices.
- ◀ Analysis of the annual report on internal control prepared by the Company's outside auditor.

### 3.3 As regards the internal audit function:

- ◀ Supervision of the budget for the Company's 2008 internal audit function.
- ◀ Analysis of the information supplementing the internal Annual Audit Plan for the 2008 fiscal year, approved by the Committee at its meeting of 17 December 2007.
- ◀ Analysis of the periodic report on the prevention of occupational hazards, throughout 2008.
- ◀ Analysis of the report on internal audits conducted during the 2007 fiscal year.
- ◀ Evaluation of the Company's internal rules and procedures. In particular, those called "Internal Management of Regulation", "Budget Management" and "Management of Objectives" have been analysed.
- ◀ Analysis of the Internal Audit Statute prepared in compliance with the recommendations of the Institute of Internal Auditors, based on the procedure for evaluation of the quality of the Internal Audit Department.
- ◀ Control of the proposed selection of a new head of the internal audit function.
- ◀ Analysis of the annual internal audit plan for the 2009 fiscal year.
- ◀ Review of the report verifying compliance with recommendations deriving from the reports of the internal audit function.

### 3.4 As regards outside auditors:

- ◀ Review of the preliminary outside audit report for the 2008 fiscal year.
- ◀ Report and proposal to the Board of Directors, based on the Company's status as sole shareholder of Red Eléctrica de España, S.A., regarding appointment of the outside auditor of the latter company.

- ◀ Comparative analysis of the costs of the outside audit function from a business point of view.

### 3.5 As regards compliance with legal provisions and internal regulations:

- ◀ Analysis of the process of implementation of the Company's Code of Ethics, in particular the procedure for complaints regarding financial and accounting irregularities.
- ◀ Review of the annual evaluation report on compliance with the Company's Internal Regulations for Conduct on the Securities Market.
- ◀ Analysis of the policy regarding management of processes and internal rules within the Red Eléctrica Group.

### 3.6 As regards the Company's shareholders:

- ◀ Analysis of the Board of Directors' proposed resolution to be submitted to the Ordinary General Shareholders Meeting regarding the process of corporate restructuring and contribution of the businesses of system operation, transmission network management and transmission of electricity to separate subsidiaries, in accordance with the mandate in Act 17/2007 and 4 July 2007.
- ◀ Review of the Board of Directors' proposed resolutions, to be submitted to the Ordinary General Shareholders Meeting, regarding treasury shares.
- ◀ Follow-up of any initiatives, suggestions and complaints made by the shareholders during the year.
- ◀ Presence of the chairman of the Audit Committee at the Ordinary General Shareholders Meeting of the Company, in order to reply personally to any issues raised by the shareholders.

### 3.7 Other activities:

- ◀ Approval of the Committee's action plans for the 2008 and 2009 fiscal years.
- ◀ Approval of the meeting schedule for the 2008 fiscal year.
- ◀ Approval of the annual report of activities of the Audit Committee for the 2007 fiscal year, to be attached to the Company's Corporate Governance Report for that fiscal year.
- ◀ Ongoing monitoring of the process of renewal of the annual corporate insurance programme of the RED ELÉCTRICA Group.
- ◀ Timely reporting to the Board of Directors regarding the activities undertaken by the Committee, and sending each individual director the Committee minutes.

## **II. NOMINATING, COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE ACTIVITIES REPORT FOR 2008 FISCAL YEAR**

### **1. INTRODUCTION**

The action plan of committee for the 2009 fiscal year, as provided in article 16.5 a) of the Board Regulations, contemplates the preparation, during the first quarter of the year, of a report of the activities undertaken during 2008, as customary to be attached to the Annual Corporate Governance Report, which is the subject matter of this document.

### **2. STRUCTURE, COMPOSITION AND FUNCTIONS**

#### **2.1. Structure**

Articles 24.2 of the Bylaws and 15 and 16 of the Board of Directors Regulations govern the structure, composition and functions of the Nominating, Compensation and Corporate Governance Committee.

The Committee has authority assigned to it regarding appointment and removal of directors and senior managers, their compensation, compliance with director duties and regarding corporate governance principles and rules.

The committee meets as often as required for proper performance of its duties. In any event it must meet at least on a quarterly basis, whenever called by its chairman or requested by two of its members, and also whenever the Board of Directors or its chairman requests that a report be issued or proposals be adopted. The calls of the meetings must include the agenda and are sent by the committee chairman or secretary to each of its members, at least three days prior to the date specified for the meeting, unless the meeting needs to be held earlier for emergency reasons.

There is a quorum for a committee meeting with the attendance of a majority of its members and decisions or recommendations are adopted by majority vote and entered in the minutes at the end of the meeting. In order to better perform its duties, the committee may propose to the Board of

Directors that advice be requested from independent professionals and may access any type of information or documentation of the Company that is required to perform its duties.

Article 15 of the Board Regulations provides that the Nominating, Compensation and Corporate Governance Committee will be comprised of a number of directors fixed by the Board of Directors, from a minimum of three to a maximum of five, with a majority of outside directors, at least half being independent. The chairman of the committee is elected by its members and the secretary of the committee is the secretary of the Board of Directors.

The appointment and removal of committee members is carried out by the Board of Directors at the proposal of the board chairman. The committee members hold their positions for a period of three years and may be re-elected; they leave their positions when they give up their directorships or if so resolved by the Board of Directors, after a report from the Nominating, Compensation and Corporate Governance Committee. The chairman may be re-elected after a year has elapsed since he left office.

## 2.2. Composition

At the end of the 2008 fiscal year and at the date of approval of this report the Nominating, Compensation and Corporate Governance Committee consists of four directors. Three are outside directors and one is an inside director. Two of the outside Directors are independent, one of them being the chairman of the committee.

During 2008 there were the following changes in the composition of the committee, to fill the vacancies occurring on the committee after the renewal of the board undertaken by the Ordinary General Shareholders Meeting held on 22 May 2008:

- ◀ Mr. Manuel Alves Torres was appointed for a term of three years, to replace Mr. Juan Gurbindo Gutiérrez (both proprietary directors), by resolution of the Board of Directors adopted at the meeting of 20 June 2008, on proposal of the chairman of the Board of Directors after a favourable

report from the Nominating, Compensation and Corporate Governance Committee held on 10 June 2008.

- ◀ Mr. Luis M<sup>a</sup> Atienza Serna was re-elected for a term of three years, as a member of the committee, by resolution of the Board of Directors adopted at the meeting of 20 June 2008, after a favourable report from the Nominating, Compensation and Corporate Governance Committee held on 10 June 2008.

At the end of the 2008 fiscal year and at the date of approval of this report the committee's composition was as follows:

Director	Position	Type of Director
M <sup>a</sup> Ángeles Amador Millán	Chairwoman	Independent
Antonio Garamendi Lecanda	Member	Independent
Luis M <sup>a</sup> Atienza Serna	Member	Inside
Manuel Alves Torres	Member	Proprietary

The chairman of the committee is an independent director elected from among its members, and the secretary is the secretary of the Board of Directors, Mr. Rafael García de Diego Barber. The appointment and removal of committee members is carried out by the Board of Directors at the proposal of the board chairman.

### 2.3. Functions

The basic responsibilities of the Nominating, Compensation and Corporate Governance Committee, pursuant to article 24 of the Bylaws, are as follows:

- “a) Reporting in advance on (and, in the case of independent directors, making) any proposals the Board of Directors is to make to the General Meeting for the appointment or removal of directors, including in cases of cooption.
- b) Proposing the compensation policy for directors and senior officers to the Board of Directors and monitoring its implementation.

- c) Assuming the reporting, supervision and proposal functions regarding corporate governance as determined by the Board of Directors, for so long as an ad hoc committee is not created for that purpose".

The foregoing responsibilities are developed in further detail in article 16 of the Board of Directors Regulations, which provides as follows:

"16.1 As regards appointments and removals:

- a) Report in advance on (and, in the case of independent directors, make) any proposals the Board of Directors is to make to the General Meeting for the appointment or removal of directors, including in cases of cooption.
- b) Report prior to their submission to the Board of Directors on proposals for appointment or removal of the secretary of the Board of Directors and the assistant secretary thereof.
- c) Propose to the Board of Directors a system for selecting independent Directors.
- d) Evaluate the balance of skills, knowledge and experience on the board and based thereon define the roles and capabilities required of the candidates to fill each vacancy.
- e) Evaluate the time and dedication necessary for directors to perform their duties with due quality and efficiency, for these purposes evaluating whether they are compatible with membership on other management bodies of listed companies.
- f) Report on the senior officer appointments and removals that the chairman proposes to the Board of Directors.
- g) Examine or organise, in appropriate form, the succession of the chairman, making recommendations to the board so the transfer proceeds in a planned and orderly manner.
- h) Ensure that gender diversity is respected when filling vacancies.
- i) Consult with the chairman, particularly when dealing with matters related to inside directors.

16.2 As regards compensation:

- a) Propose to the Board:

the compensation policy for directors and senior officers.

- ii) the individual compensation and other contractual conditions of inside directors.
  - iii) the standard conditions for senior officer employment contracts.
- b) Consult with the chairman of the Company, particularly when dealing with matters related to inside directors and senior officers.
  - c) Oversee compliance with the compensation policy set by the Company.

16.3 As regards discharge of the directors' duties:

- a) Ensure fulfilment by the directors of the obligations established in these regulations, report to the Board on their performance, and issue the appropriate reports and proposals as well as, as applicable, on the measures to be adopted in the event of breach.
- b) Authorise the directors to use corporate assets.

16.4 As regards corporate governance rules:

Supervise observance of the corporate governance rules, making proposals for improvement to the Board of Directors, and receive information in this respect and, if appropriate, issue an annual report on the measures to be implemented and send it to the board.

16.5 Other functions:

- a) Keep the board informed of its activities and prepare an annual report to be included in the management report, as well as an action plan for each fiscal year.
- b) Propose and report on any other matter related to the foregoing that may be requested by the chairman or by the Board of Directors.
- c) Report to the board on performance of their duties by the chairman and the full committee.
- d) Verify the category of each director, for purposes of the pertinent board explanations to the General Shareholders Meeting that is to make or ratify the appointment of that director, and reflect it in the Annual Corporate Governance Report.
- c) Any other authority conferred on it by the board".

### 3. ACTIVITIES CARRIED OUT DURING THE 2008 FISCAL YEAR

The Nominating, Compensation and Corporate Governance Committee met nine (9) times during the 2008 fiscal year. The Board of Directors was timely advised of the matters considered at each meeting of the Committee. Copies of the corresponding minutes were sent to each director.

The most significant actions of the Nominating, Compensation and Corporate Governance Committee during the 2008 fiscal year were:

#### 3.1. As regards appointments, removals and re-elections:

Monitoring the process of appointment/re-election of directors and preparation of reports and proposals to the Board of Directors to be sent to the Ordinary General Shareholders Meeting.

During the 2008 fiscal year there were reports and/or proposals regarding the following appointments/re-elections, ratified by the Board of Directors and approved by the General Ordinary Shareholders Meeting held on 22 May 2008:

- 1) Re-election of Mr. Antonio Garamendi Lecanda as an independent director for the term of four years established in the bylaws.
- 2) Appointment of Mr. José Rodrigues Pereira dos Penedos as an independent director, for the term of four years established in the bylaws.
- 3) Appointment of Mr. José Folgado Blanco as an independent director, for the term of four years established in the bylaws.
- 4) Appointment of Ms. Arantza Mendizábal Gorostiaga as an independent director, for the term of four years established in the bylaws.
- 5) Re-election of Mr. Manuel Alves Torres as a proprietary director, for the term of four years established in the bylaws.
- 6) Appointment of Ms. María Jesús Álvarez González as a proprietary director, for the term of four years established in the bylaws.

Review and report on proposals for appointment of members of the Audit Committee and the

Nominating, Compensation and Corporate Governance Committee, made by the chairman of the Board of Directors.

### 3.2. As regards compensation:

- ◀ Approval of the proposed corporate and management objectives for the 2008 fiscal year.
- ◀ Approval of the proposal of objectives for members of the Management Committee for the 2008 fiscal year.
- ◀ Approval of the proposed Objectives of the Legal Department for the 2008 fiscal year.
- ◀ Approval of the proposed Objectives of the subsidiary Red Eléctrica Internacional, S.A.U. for the 2008 fiscal year.
- ◀ Review of compliance with the Management, Business and Management Committee Objectives of the Company's Legal Department and the subsidiary Red Eléctrica Internacional, S.A.U. for the 2007 fiscal year.
- ◀ Review and monitoring (quarterly) of the degree of compliance with the Business, Management and Management Committee Objectives of the Company's Legal Department and those of Red Eléctrica Internacional, S.A.U., all for the 2008 fiscal year.
- ◀ Review of the final proposal to the Board of Directors on compensation of directors and committee members for 2008, to adapt them to the terms resolved at the board meeting of 20 December 2007.
- ◀ Approval of the proposal to acquire electricity-related rights of employees.
- ◀ Analysis and review of the Compensation Policy Report and the proposed resolution to ratify board compensation for the 2007 and 2008 fiscal years, which the board submits to the General Meeting.
- ◀ Approval of the compensation policy for the management team of Red Eléctrica de España, S.A.U. and Red Eléctrica Internacional, S.A.U. for 2009.
- ◀ Approval of the proposed amendment of 2006-2008 long-term objectives to adjust them to the 2008-2012 strategic plan.
- ◀ Sending the Board of Directors the proposal for its compensation for the 2009 fiscal year.

### 3.3. As regards Corporate Governance:

- ◀ Review of the programme for actions and initiatives regarding Corporate Governance for 2008.

- ◀ Self-evaluation process of the Board of Directors, its committees and the chairman of the Board of Directors and chief executive, for 2007, commenced during the final quarter of 2007 and completed in July 2008 with the approval of the final report by the Board of Directors.
- ◀ Commencement of the process of self-evaluation of the Board of Directors, its committees and the chairman of the Board of Directors and chief executive, for 2008.
- ◀ Report on the process of evaluation of the management team for the 2007 fiscal year.
- ◀ Review of the proposed Annual Corporate Governance Report for the 2007 fiscal year.
- ◀ Evaluation of comments received regarding the final text of the Board of Directors Regulations, approved by the board at its meeting of 20 December 2007, to adapt it to the recommendations in the Unified Code for Good Governance of Listed Companies (Conthe Code).
- ◀ Analysis and review of the bylaws and the General Meeting Regulations, to adapt them to Act 17/2007 of 4 July 2007, to be sent to the Board of Directors prior to submission to the General Shareholders Meeting.
- ◀ Comparative analysis of the Independent Director Statute and the current Board of Directors Regulations of the Company, which concluded by repealing the former, as its content had been incorporated into the latter.
- ◀ Review of the procedure for electronic voting at the Ordinary General Shareholders Meeting for the 2007 fiscal year, to be approved by the Board of Directors.
- ◀ Analysis of the Annual Corporate Governance Report of the IBEX-35 companies for the 2007 fiscal year, presented in the month of July by the National Securities Market Commission.
- ◀ Preparation of the Annual Report on Gender Policy to be sent to the Board of Directors.
- ◀ Implementation of a programme for updating knowledge of the Company by members of the board, under constant revision.
- ◀ Implementation of an orientation programme for new directors regarding the Company's activities and corporate governance rules.

#### 3.4. Other actions:

- ◀ Approval of the committee's annual activity report for the 2007 fiscal year, for attachment to the Annual Corporate Governance Report.
- ◀ Approval of the schedule of meetings for 2008.

- ◀ Report on signature of Collective Bargaining Agreement IX.
- ◀ Immediate reporting to the Board of Directors on the committee's activities at each of its meetings, and sending copies of the corresponding minutes to reach director.

#### **4. DIRECTOR ATTENDANCE AT MEETINGS**

During the nine (9) meetings held there was only one (1) absence, for just cause.

### **III. NOTIFICATIONS AND MATERIAL DISCLOSURES SENT TO THE NATIONAL SECURITIES MARKET COMMISSION DURING 2008**

#### **1. APPROVAL OF NEW BOARD OF DIRECTORS REGULATIONS**

**(Notice of 8/02/2008)**

On 8 February 2008 the CNMV was advised that the Board of Directors of RED ELECTRICA DE ESPAÑA, SA. at its meeting of 20 December 2007 had approved amendment of the Board Regulations in light of the recommendations in the Unified Good Governance Code.

#### **2. RELEASE OF RESULTS OF CORPORATE ISSUERS (Notification of 03/03/2008)**

On 3 March 2008 the results of the RED ELÉCTRICA GROUP for the 2007 fiscal year were published. Consolidated profit was 243.1 million euros

#### **3. MEETINGS WITH ANALYSTS AND INVESTORS (Notice of 06/03/2008)**

On 6 March 2008 the Company presented an audio webcast motivated by publication of Royal Decree 325/2008 of 29 February 2008, establishing the compensation for the business of electricity transmission for facilities commissioned starting 1 January 2008.

#### **4. INFORMATION REGARDING DIVIDENDS TO AND THE OTHER FORMS OF COMPENSATION OF SHAREHOLDER (Notification of 27/03/2008)**

On 27 March 2008 the Board of Directors of Red Eléctrica de España resolved to propose to the Ordinary General Shareholders Meeting the payment on shares with a dividend right of the gross amount of 1.0871 euros per share.

#### **5. MATERIAL DISCLOSURES REGARDING COMPENSATION SYSTEMS (Notification of 28/03/2008)**

On 26 March 2008 the CNMV was notified that on 26 March there had been a new application of the plan for acquisition of shares by officers of Red Eléctrica, by delivery of 6,059 shares for a total of 233,200 euros.

**6. ANNUAL CORPORATE GOVERNANCE REPORT (Notification of 18/04/2008)**

On 18 April 2008 the CNMV was notified of the Annual Corporate Governance Report for the 2007 fiscal year, approved by the Board of Directors meeting of 17 April 2008.

**7. ANNOUNCEMENT OF CALLS AND RESOLUTIONS OF MEETINGS (Notification of 18/04/2008)**

On 18 April 2008 the CNMV was sent the agenda for the Ordinary General Shareholders Meeting to be held on 21/05/08 or 22/05/08, on first or second call, respectively.

**8. RELEASE OF RESULTS OF CORPORATE ISSUERS (Notification of 22/04/2008)**

On 22 April 2008 the CNMV was sent the results for the first quarter of the 2008 fiscal year.

**9. CHANGES IN THE BOARD AND OTHER GOVERNING BODIES (Notification of 14/05/2008)**

On 14 May 2008 the CNMV was notified that the Board of Directors meeting of the same day had resolved to submit certain changes in the board to the General Shareholders Meeting, under point 5 of the Agenda "Re-election and Appointment of Directors", subpoints 5.1, 5.2, 5.3, 5.4., 5.5 and 5.6, in accordance with the report and proposal made by the Nominating, Compensation and Corporate Governance Committee.

**10. ANNOUNCEMENT OF CALLS AND RESOLUTIONS OF MEETINGS (Notification of 23/05/2008)**

On 23 May 2008 the CNMV was sent the full text of the resolutions adopted by the Ordinary General Shareholders Meeting held on 25/05/08.

**11. PRESENTATION OF STRATEGIC PLAN (Notice of 06/06/2008)**

On 6 June 2008 the Company presented the 2008-2012 Strategic Plan of the Red Eléctrica group.

**12. CORPORATE RESTRUCTURING (Notice of 01/07/2008)**

On 1 July 2008 the Company notified the CNMV that, by means of the corresponding resolutions approved by the General Shareholders Meeting of 22 May 2008 and by the Board of Directors meeting of 20 June 2008, formalisation of the process of subsidiarisation of the businesses of system operation, transmission network management and electricity transmission had been completed.

**13. RELEASE OF RESULTS OF CORPORATE ISSUERS (Notification of 30/07/2008)**

On 30 July 2008 the Company sent information regarding the results of the first quarter of 2008, which amounted to 151.4 million euros.

**14. RELEASE OF RESULTS OF CORPORATE ISSUERS (Notification of 31/10/2008)**

On 31 October 2008 the Company sent information regarding the results for the first nine months of 2008, which amounted to 216.2 million euros.

**15. MATERIAL DISCLOSURES REGARDING COMPENSATION SYSTEMS (Notification of 12/12/2008)**

On 12 December 2008 the CNMV was notified that on 11 December 2008 there had been a new application of the plan for acquisition of shares by officers of Red Eléctrica, by delivery of 13,166 shares for a total of 475,300 euros.

**16. ANNOUNCEMENT OF PAYMENTS OF COUPONS AND DIVIDENDS (Notice of 18/12/2008)**

On 18 December 2008 the CNMV was notified that payment of an interim dividend out of profits of the 2008 fiscal year had been announced, amounting to 0.448700 euros per share.